Austria Sch22	Indonesia Rp3100	Philippines. Pesos40
Bahrain Din0.650	Iran Rls160	Portugal Esc120
Belgium BFr48	Israel IS3.50	S.Arabia Rls7.00
Canada .... C$1.00	Italy L1700	Singapore .. S$4.10
Cyprus .... C£0.90	Japan Y600	Spain Pta145
Denmark . DKr10.00	Jordan Fils500	Sri Lanka Rup30
Egypt .... E£2.25	Kuwait Fils500	Sweden SKr9.00
Finland Fmk7.00	Lebanon ... $L125.00	Switz SFr2.30
France FFr6.30	Lux LFr48	Taiwan .... NT$65
Germany DM2.30	Malaysia Rin4.25	Thailand Bht50
Greece Dr120	Mexico Pes300	Tunisia Din0.600
Hong Kong ... HK$12	Morocco Dh6.00	Turkey L600
Iceland Kr125	Neth Fl3.00	UAE Dh6.50
India Rs15	Norway ... Nkr10.00	USA $1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,675 Monday October 24 1988 D 8523 A

SINGLE MARKET

Banana skins line the path to 1992

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World News

Storm brings economic disaster to Nicaragua

Nicaragua faces an economic disaster after a tropical storm brought death and destruction over the weekend. President Daniel Ortega said at least 50 people had died and 300,000 forced from their homes.

The storm, which he called the most destructive natural disaster in Nicaragua's history, destroyed thousands of homes, ruined crops and produced flash floods throughout the country including the capital, Managua. Page 3

Arafat in talks

PLO chairman Yassir Arafat held a series of surprise meetings with the leaders of Jordan, Egypt and Iraq in pursuit of a united Arab stand on Middle East peace talks. Page 28; Lebanon clash, Page 4

Reagan fund claim

A US congressional subcommittee is investigating charges that former Philippine President Ferdinand Marcos made illegal campaign contributions to President Reagan, Newsweek magazine said.

Cocaine killings

At least 100 people, including six found brutally slain on Saturday, have been killed this year in a war between rival Colombian cocaine rings, police said.

Iran political parties

Iran said that it was easing restrictions on political parties. This may strengthen the hand of the pragmatists in the Iranian Government. Page 4

Hostage arms link

Italian police were last night questioning a Lebanese woman arrested at Milan airport who was found to be carrying three photographs of American hostages who are being held in Lebanon. Page 3

Chile buys Kfirs

Chile's Air Force is renewing its fleet by buying 12 Israeli Kfirs, fighter-bombers comparable with the latest version of the French Mirage 2000s. Page 4

Soviet shuttle

Preparations for the first launch of a Soviet reusable spacecraft are at a final stage, the official news agency Tass said, suggesting that the launch of the shuttle could be imminent. ESA-Soviet talks, Page 5

Seoul demonstration

Hundreds of chanting demonstrators scuffled with riot police in Seoul during the first big anti-government rally since the end of the Seoul Olympics, during which Government and opposition called a rare political truce.

Mafia killing

The chief surgeon at a southern Italian hospital died after being shot at point-blank range in what police said was probably a Mafia attack. More than 100 people have died in a Mafia war in Calabria so far this year.

Yugoslav unity plan

Yugoslavia's Communist Party announced plans to step up preparations for economic and constitutional reform, and eased security measures in the republic of Montenegro.

Soviet poll plan

The Soviet people will be allowed to vote in multi-candidate elections, with candidates allowed to finance public campaigns, according to the proposed electoral reform published in Moscow. Page 3

Chile reshuffle

Chile's General Augusto Pinochet changed nine Ministers, half his 18-member Cabinet, and insisted that he would not accelerate Chile's return to democracy.

Sri Lanka clashes

At least 24 people, including 10 Indian soldiers, were killed in Sri Lanka in rebel attacks and ethnic violence, police and army sources said.

'Temptation' fire

Ten people were injured when fire struck a Paris cinema showing the controversial film The Last Temptation of Christ.

Business Summary

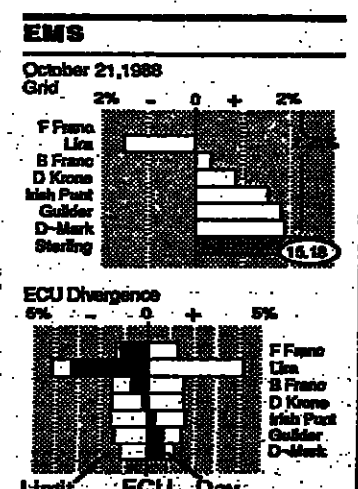
Tighter curbs on insider deals passed by Congress

US LEGISLATION to increase monetary penalties and jail terms for insider trading offences has been approved by Congress. It also provides for bounty payments to informers and exposes Wall Street firms to greater liability in insider trading cases. Page 2

ROYAL BANK of Scotland, Scotland's largest bank, intends to take part in a £1bn ($1.75bn) loan facility to finance the hostile bid by Elders IXL of Australia for Scottish & Newcastle Breweries, Scotland's largest industrial company. The move was seen by some as a stab in the back for S&N. Page 30

EUROPEAN Monetary System: The French franc remained under pressure against the D-Mark last week, despite a rise in the French four-week sale and repurchase rate. The D-Mark rose to its highest level ever against the franc, but there was no intervention by the Bank of France.

The French unit remained the weakest member of the system, and on Friday, reached 62 per cent of its allowed divergence spread, against 52 per cent the week before.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies. Currencies, Page 42

NIKKEI INDEX fell 62.65 to 27,338.57 in half-day trading on Saturday, after a three-day straight gain. World Stock Markets, Page 43

BOC Group, UK industrial gases and healthcare company, is to declare the total annual dividends it expects to pay to shareholders at the start of each financial year. BOC says it is one of the first companies to implement such a scheme. Page 7

GOLDSTAR, South Korean electronics company, is to try to avoid further accusations of dumping by investing almost $50m in production plant in Britain and West Germany. Page 2

SOUTH KOREA: Two of the country's top business groups are to invest $2.3bn in projects ranging from semiconductor manufacture to aluminium production. Page 2

FRANCE agreed to cut its top rate of value added tax (VAT) from 33.33 per cent to 28 per cent in a deal aimed at winning the passive support of centrist members of parliament for its budget. Page 3

BRAZIL is this week bracing itself for a new package of austerity measures aimed at hauling the country back from the brink of an inflationary explosion. Page 2

ICN Pharmaceuticals, California drugs company which has been battling to convince US authorities that its "wonder" drug ribavirin can treat AIDS, could face criminal prosecution if a current grand jury inquiry decides it may have tried to market the drug illegally. Page 30

MACLEAN HUNTER, Canadian publishing and communications group, is seeking to buy Selkirk Communications, broadcasting and cable concern, for C$345 a share or C$540m (US$449.4m). Page 30

DIGITAL EQUIPMENT, second largest US computer company, is further extending its lower-end product range by entering the rapidly expanding market for personal computer (PC) networks. Page 30

Soviet scientists seek new technology deals with US

By Louise Kehoe in San Francisco and David Thomas in London

THE SOVIET Union has launched a three-pronged initiative through a number of US-based companies to increase computer trade and technology transfer with the US. The project includes moves in fields where trade is at present restricted on military grounds.

In particular, Soviet scientists who claim to have designed an advanced 32-bit microprocessor, a key component in most modern computing, are seeking a US company to help them manufacture the chip in large quantities.

Soviet representatives say they will switch their search to Western Europe if they fail to find a US partner for the 32-bit chip. They are already pursuing joint ventures with European companies, including discussing a joint computer manufacturing operation in the Soviet Union with ICL, the largest UK computer maker.

The Soviets have set three goals for high technology trade with the US, according to Mr Jerry Duffey, a consultant at Management Partnership International (MPI), a Chicago-based organisation representing Soviet business interests in the US:

● The sale of Soviet software in the west;
● Manufacturing personal computers; and
● The 32-bit microprocessor project.

"We hope to market Soviet software in the West," said Mr Duffey. "We have very good programs that we aim to package as products that can be marketed here."

The Soviets have advanced mathematics software for pure and applied calculations as well as artificial intelligence and expert system programs, according to Mr Duffey. These could have applications in industrial design and research.

"The Russians can compete on price because their programmers are paid very little," said Mr David Thomsen of California Microelectronic Systems, another company which has developed close ties with the Soviet Union.

Borland and Micropro, two leading US software companies, have acknowledged an interest in doing business with the Soviet Union, which might involve selling their products there.

However, some Western experts are sceptical about Soviet claims for their software. "The Soviet involvement in international conferences (in the field of advanced mathematics software) has been extremely limited," said Dr John McCarthy, an artificial intelligence expert at Stanford University.

The Soviets are setting up joint ventures to manufacture personal computers in Moscow and Leningrad through California Microelectronic Systems.

The first, planned for Moscow, is between a Russian company called Kompan and Televideo Systems of California. Initially, according to Mr Thomsen, the Russians will assemble and test personal computer "kits," although eventually they aim to undertake full manufacturing.

A second joint venture with another California computer company is under negotiation, Mr Thomsen said.

"We are doing everything strictly according to the book," said Mr Thomsen, who noted that the US Commerce Department had recently relaxed export restrictions on computers sold to the USSR to include systems with a performance level up to that of a 16-bit personal computer, which would include clones of IBM PC AT machines.

By far the most ambitious Soviet plan is to set up a joint venture with a US semiconductor company through which the Soviets aim to obtain advanced 32-bit microprocessors.

Mr Duffey says the Soviets have designed a 32-bit microprocessor that is "different and more advanced than anything available in the West," but do not have the semiconductor manufacturing technology needed to produce it.

The Soviet microprocessor, called Kronos, is understood to be a Reduced Instruction Set Computer (RISC) chip, which implements high level computer language instructions, and to have been designed at the Soviet science centre of Novosibirsk.

Prof Vadim Kotov, deputy director of the computing centre at Novisibirsk and a member of a recent Soviet trade delegation to the US, said he

Opec talks break up after failure to agree production restraints

By Steven Butler in Madrid

A MEETING of the eight most important members of the Organisation of Petroleum Exporting Countries broke up without agreement this weekend and despite claims of a new initiative towards a production sharing pact.

Traders observing the meeting of Opec's strategy and price committee in Madrid believed the failure would disappoint oil markets. Prices have risen on expectations that the cartel would be able to move quickly to restrain a surge of oil production.

Much of this has come from the Gulf Arab states. Saudi Arabia, particularly, appears to have been flooding the markets with oil in an attempt to force Iran and Iraq to reach a production agreement. Assigning a quota to Iraq is generally seen as a key first step towards restoring discipline in the 13-member group.

Iran's repeated refusal to agree Iraq's demand for an increased production quota equal to that if its old enemy has resulted in a refusal by Iraq to take part in the production sharing agreements of the past two years.

Mr Gholamreza Aqazadeh, the Iranian oil minister, said in Madrid after the meeting yesterday that he had proposed a new formula to end the dispute. He suggested the two countries should each be given the same ceiling on their oil exports rather than on total production.

But, in spite of strong pressure from other Opec members for Iraq to rejoin the cartel agreement, Iran and Iraq remained divided.

The Iranian proposal giving parity of exports would allow Iraq a significant increase in its production quota, which previously stood at 1.5m barrels per day, but it would result in a lower quota level than Iran's 2.37m b/d. This is because Iran's domestic consumption is much higher.

Iraq has been increasing production rapidly recently and is now producing 2.7m b/d. As a result of pipeline construction it will soon be able to produce 3m b/d and perhaps as much as 3.5m b/d next year.

This has been a major factor in depressing the market along with the excess production by normally moderate Gulf states led by Saudi Arabia.

Dr Subroto, the Opec secretary general, said the proposals put to the meeting would be discussed with home governments prior to another joint meeting of the eight ministers – from Algeria, Indonesia, Kuwait, Nigeria, Saudi Arabia, Venezuela as well as Iran and Iraq – on November 17 in Vienna.

He said "concrete and important progress" had been made in the three-day talks.

A full meeting of Opec's 13 oil ministers is set for November 21. Saudi Arabia and its Gulf Arab allies had earlier proposed that Iraq should be allocated a production quota equal to that of Iran, and that all Opec members would enjoy proportionate quota increases as the production ceiling rises.

Mr Belkacem Nabi, the Algerian oil minister, said the meeting represented an important step forward because Iran and Iraq had in effect begun a process of negotiation, and he was optimistic that an agreement might be reached in November. He said: "Both countries, Iran and Iraq, are willing to achieve something in November because they need the money."

Mr Abdul Raheem Al-Chalabi, the Iraqi minister, was reported not to have rejected the Iranian proposal outright but said he would have to consult on this and other proposals with the Baghdad government. Oil prices have fallen to progressively lower levels throughout the year, with North Sea Brent crude plunging to about $11 dollars a barrel in September after Saudi Arabia responded to growing indiscipline.

Neighbouring Kuwait and the United Arab Emirates, notorious for its over-production, have also been exceeding their quotas by a large margin. These three states are producing some 2m b/d in excess of their official quotas. This is close to the amount by which many observers believe the cartel will have to reduce output if it wants prices to rise. Saudi medicine resisted, Page 4

Dukakis launches last-ditch attack

By Stewart Fleming in Washington

GOVERNOR Michael Dukakis, the Democratic candidate for the US presidential election, has launched a last-ditch attack on Vice-President George Bush, accusing the Republican front-runner of using "fear and smear" tactics and lies as part of his campaign for the presidency.

With national opinion polls showing the Republican ticket up to 10 points ahead but many voters still undecided about which way they will vote on November 8, Mr Dukakis has begun to air new five-minute television commercials which charge Mr Bush with distorting his policy positions on defence issues. He will also appear in a 90-minute television interview tomorrow.

Yesterday, Senator Lloyd Bentsen of Texas, Mr Dukakis's running mate, joined in the attack. Asked whether Republican campaign advertisements about a black murderer who committed another brutal crime while out on leave from a Massachusetts prison represented a racist appeal to the electorate, he said: "When you add it up I think there is [a racist overtone] and that is unfortunate."

Senator Robert Dole, a Republican, was interviewed on the same television programme and said: "I can defend George Bush, but I am not certain I can defend every advertisement."

Most political analysts believe Mr Dukakis should have been responding weeks

Demonstrators gather outside the sports arena in Vilnius on Saturday shortly before the founding congress of the Lithuanian Movement for Perestroika

Lithuanian leaders plead for patience

By Quentin Peel in Vilnius, Lithuania

THE SOVIET repubnic of Lithuania's two most important people – the newly-elected Communist Party leader and the Roman Catholic Cardinal – urged patience yesterday on their country's reborn nationalist movement.

Their pleas came as an extraordinary two-day congress to found the movement saw sweeping demands for political change and calls for a referendum on whether to remain part of the Soviet Union.

The congress was marked by a candlelit rally of more than 200,000 singing and cheering Lithuanians, and a Roman Catholic mass on the steps of Vilnius Cathedral, which was handed back to the Church in a dramatic gesture by the Soviet authorities on Saturday. The cathedral had been closed since 1950.

The two-day event to establish Sajudis, the Lithuanian movement for perestroika, was televised live amid an orgy of public debate and some bitter criticism of past Communist rule. Estonia and Latvia, the other Baltic states, have established similar movements.

Mr Algirdas Brazauskas, the new party leader, was given a rousing reception, even when he begged for patience at the end of the congress debate. "I ask you to consider these matters in a rational, businesslike fashion," he said.

Some speeches from the rostrum had saddened him, he added, asking: "Can we solve

Italians vie for ITN support to start Europe-wide channel

By Alan Friedman in Milan and Raymond Snoddy in London

BRITAIN'S Independent Television News (ITN) now holds the key to the future of Super Channel, the loss-making satellite channel, despite its having no direct investment.

Two suitors, Mr Richard Branson, the UK entertainment industry entrepreneur, and Videomusic, the Italian rock music television station, are each trying to persuade ITN to take part in relaunching the project.

A delegation from Betatelevision, the Tuscany-based company which controls Videomusic, will be in London today for talks at ITN. The company wants to create a news and music channel for Europe, while Mr Branson wants to launch Europe's first satellite television news channel.

It will argue that, because of investment links in Italy and France with companies such as Société Générale de Communication, CBS France and Tele-Monte Carlo, the private television station, Videomusic can offer ITN a better outlet.

In the early hours of Saturday morning Videomusic reached agreement to buy the 55 per cent stake in Super Channel still held by Britain's founding Independent Television companies for £1 and the taking on of about £5m ($8.75m) in net liabilities.

But, under Super Channel's articles of association, Mr Branson, as a major shareholder, has the right to match Videomusic's offer within eight working days. This he intends to do through one of his private companies this week as long as he can persuade ITN to be his main supplier of television news.

Mr Branson, who already holds a 45 per cent stake in the channel, hopes to relaunch Super Channel on November 1.

Super Channel has run up a gross cumulative deficit of nearly £60m since its official launch 21 months ago and is still losing about £1m a month.

Mr Branson believes that a European television news channel to challenge Mr Ted Turner's Cable News Network could be financially viable in the way that an English-language general entertainment channel would not.

ITN believes the plan would work only if one of the US network companies is also brought on board. Mr Branson has already contacted all three networks, ABC, NBC and CBS.

The man behind the Videomusic bid, Mr Guelfo Marcucci, is the patriarch of an extremely wealthy family from the Tuscan city of Lucca. The Marcucci family holdings range from pharmaceuticals to hotels and pulp and paper. Last week a member of the Marcucci family had talks in London with Mr Branson and offered a co-ownership deal for Super Channel, but this was rejected.

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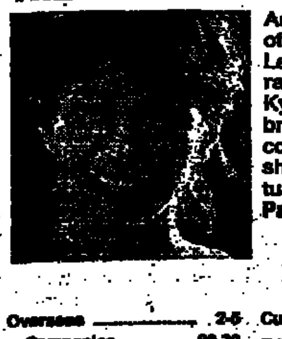
THE MONDAY INTERVIEW



As secretary-general of Burma's National League for Democracy, Aung San Suu Kyi is one of the brighter hopes for the country's post-dictatorship era when it eventually dawns

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OVERSEAS NEWS

Congress approves tighter curbs on insider trading

By Stewart Fleming in Washington

THE US Congress has approved new legislation which calls for tougher penalties for insider trading on Wall Street.

It was approved early on Sunday morning as legislators rushed to give final approval to several bills so that the 100th Congress could go into recess and members up for re-election could go back to their constituencies to campaign.

The legislation, which reinforces existing law, is Congress's first response to the insider trading scandals of the past few years, such as the Ivan Boesky affair. It sharply increases monetary penalties and jail terms for insider trading offences, providing for bounty payments to informers and exposing Wall Street firms to greater liability in insider trading cases.

Insider trading occurs when company executives or individuals with privileged access to confidential information about a company use it to make illegal profits by trading shares in the stock market. However, the bill does not precisely define insider trading, on the grounds that to do so would make it easier for traders to exploit technical loopholes to escape punishment.

Among the main elements is a provision that individuals may be jailed for 10 years for each violation and fined a maximum of $1m (£570,000), while Wall Street firms become liable for triple the amount of illegal profits in civil cases brought by the Securities and Exchange Commission.

The Government may reward informers by giving them up to 10 per cent of the fine or settlement in an insider trading case. The bill also provides that the Securities and Exchange Commission shall have the right to co-operate with a foreign country investigating securities fraud by a foreigner in the US.

GoldStar to spend $50m on UK and W German plants

By Christopher Parkes, Consumer Industries Editor

GOLDSTAR, the South Korean electronics company, is to try to avoid further accusations of dumping by investing almost $50m (£28.4m) in new production plant in Britain and West Germany.

A $14m microwave oven factory, able to produce 300,000 units a year, should be open in Washington, Co Durham, by February, says Mr C P Kim, managing director of the company's UK sales subsidiary.

Work was also due to start on a $35m facility in Worms, West Germany, which would make components for video recorders, he added.

If the projects were successful the company planned to start manufacturing other kitchen appliances in the UK and add other products to existing colour television and video recorder lines made in West Germany.

It is understood that it aims to expand into home laundry appliances and refrigerators at Washington, although Mr Kim said it was too early to be precise.

GoldStar officials in Seoul said the operations were intended to help the company avoid tariff and other import barriers erected by the European Community.

The European Commission last month imposed anti-dumping charges of up to 30 per cent on three Korean video recorder companies, GoldStar, Daewoo and Samsung.

The German components plant will be built on an existing site at Worms to increase the local content of its products. Present output, which is scheduled to rise to 300,000 TV sets and 400,000 recorders, consists mainly of parts imported from Korea and assembled in a so-called "screwdriver" operation.

Similarly, as many microwave oven parts as possible would be sourced in Britain, Mr Kim said. Since Electrolux of Sweden, Samsung of Korea and several Japanese companies already make microwaves in the UK, component sources are well established.

GoldStar's UK sales have risen from £36m to about £55m in the past year.

Since its first overseas investment, a US factory built in 1982 which now accounts for about 20 per cent of the group's worldwide large-screen television and microwave oven output, GoldStar has expanded its international production base vigorously.

The Worms assembly facility, opened last autumn, was its first manufacturing site in West Germany.

S Korean investment projects

By Maggie Ford in Seoul

TWO of South Korea's top business groups are to invest $2.9bn (£1.6bn) in projects ranging from semiconductor manufacture to aluminium production. The announcement suggests that business confidence in the political and economic future of the country has grown.

Samsung group is to spend $560m setting up its fourth semiconductor plant to make 4 M D and 16 M D Ram chips to be completed at the end of next year.

The group will also invest $440m at its glass bulb plant, a joint venture with Corning Glass of the US. It will include facilities to make glass bulbs for the new high-definition television sets and will boost capacity to 31m units by 1991.

At Hyundai, $363m will be invested in semiconductor production to make 4 M D Ram and 16 M D Ram chips and other industrial electronics. The company aims for exports of $2bn by 1991.

GoldStar, a third large South Korean company, said last month it was investing $2.3bn in a new semiconductor plant.

Aluminium of Korea, a Hyundai subsidiary, is shortly to award contracts for foreign participation in a planned $350m aluminium rolling plant. Japanese, US and European companies are bidding for contracts at the plant, which will produce 100,000 tonnes of hot rolled aluminium sheets and aluminium alloy in the first stage. Capacity will be increased to 250,000 tonnes in the second stage.

Up to 10 of South Korea's largest companies are also engaged in a fierce battle to take part in the petro-chemical industry, newly deregulated by the Government and viewed as potentially highly profitable.

The Government has been forced to form a ministerial group to study the investment plan, to avoid the growth of over-capacity, but has so far been unable to decide which company should be allowed to go ahead with its plan.

The announcement of the new confidence in business investment has been accompanied by a boom in the stock market, where capitalisation has now exceeded Hong Kong's. The composite index reached a record 750.39 last week, a 44-point rise in the week. Investors have been encouraged by impending moves towards financial liberalisation.

The private sector moved last week to take a larger role in trading issues as well, by holding the first meeting of business leaders from the US and South Korea. Attended by captains of industry from both sides, the council will attempt to help solve trade disputes previously handled only through government channels.

Nobrega prepares austerity measures

By Ivo Dawnay in Rio de Janeiro

BRAZIL is bracing itself this week for a new package of austerity measures which will be aimed to haul the country from the brink of an inflationary explosion.

Yesterday Mr Mailson da Nobrega, the Finance Minister, was putting the final touches to the measures for presentation today to President José Sarney, on the latter's return from a 10-day tour of France, the Soviet Union and Portugal.

If the package is rejected or heavily altered by ministers, Mr da Nobrega is expected to have little alternative to resignation.

The plan, which is expected to include a new fiscal "shock" – and the framework for a social pact by government, employers and workers – is almost certain to provoke fierce opposition.

Mr da Nobrega found himself on a collision course last week with Mr Aureliano Chaves, the powerful Mines and Energy Minister and a close ally of the president, who on Friday ordered a pay rise for his civil servants in direct defiance of the finance minister.

An estimated 50 per cent of all federal civil servants, in 17 ministries, are now on indefinite strike for wage improvements. Stoppages have also hit public companies and the state-owned Banco do Brasil, bringing the total on strike to more than 800,000.

The crisis has provoked wild speculation that a government collapse is imminent, with several leading politicians advocating political options ranging from mass cabinet resignations to the formation of an emergency national unity administration. Neither of these appears likely, however.

Leaks from Brasília suggest that efforts to slow price rises – now forecast at about 29 per cent for this month – must involve real reductions in salaries. Without tough measures, economists fear that November inflation could leap above 33 per cent – the equivalent to 2,300 per cent a year.

Anxiety over the inflationary surge has all but paralysed financial markets over the last 10 days as savers have deserted cruzado-denominated assets in favour of dollars, gold and real estate.

The trend was accelerated by a Central Bank attempt to woo back investors with a leap in overnight interest rates from 39 per cent to 50 per cent.

The move, later revoked, came after the expansion of the monetary base exceeded 25 per cent in just 12 days.

Mr da Nobrega is now expected to recommend a similarly sharp increase in interest rates, tough new expenditure cuts and the inflation-indexation of taxes, public sector tariffs and wages. In order to reduce inflation, the government, in conjunction with employers and workers, will impose a pre-fixed ceiling on wage and price rises at the beginning of each month, on which indexed increases will be based.

It is also expected to raise food imports substantially to put pressure on local farm prices.

Italians quiz Beirut woman over hostage link

By Alan Friedman in Milan

ITALIAN police were last night questioning a Lebanese woman arrested at Milan airport who was found to be carrying three photographs of American hostages who are being held in Lebanon.

Ms Aline Ibrahim Kizkallah was arrested last Thursday afternoon as she stepped off a Middle East Airlines (MEA) flight from Beirut and was found to be in possession of 50 grams of heroin, $1,000 in counterfeit cash and Polaroid photographs of Professor Alan Steen, an American hostage who is being held by the Beirut based Jihad.

She also had a photograph of Mr Terry Anderson, the Associated Press reporter who is also being held hostage in Lebanon.

The most intriguing part of what Italian television was last night describing as an "international mystery" is that Ms Kizkallah was going to an appointment with Mr Aldo Anghessa, a Swiss-Italian who figured prominently last year in an Italian arms scandal.

He was the key man 13 months ago in the scandal over the alleged sale of mines to Iran and Iraq by Valsella Meccanotecnica, a Brescia-based arms company.

It was unclear last night what kind of links there might be between Mr Anghessa and the Lebanese woman arrested. There were reports in Italy yesterday that the CIA and the Italian secret services are collaborating on a full-scale investigation of the incident.

Italian magistrates have spent years investigating what they believe to be links between Italian drug traders and Middle East terrorists.

Papandreou warns over single market

DR ANDREAS PAPANDREOU, Greece's Socialist Prime Minister, who returned home at the weekend to a well-orchestrated party welcome after a two month absence in London for heart surgery, has said his first priority is to boost economic competitiveness against the impact of the 1992 European internal market, writes Andriana Ierodiaconou in Athens.

Conspicuously absent from Saturday's welcome was Dr Papandreou's wife Margaret whom he has said he will divorce.

Miyazawa's position undermined by Recruit scandal

By Ian Rodger in Tokyo

JAPAN'S simmering insider trading scandal, arising from the sale of shares of Recruit Cosmos, an unlisted property company, on advantageous terms to prominent political and business leaders, is once again disrupting the political schedule.

Some political analysts now think it could also cause considerable damage to the ruling Liberal Democratic Party (LDP), as a result of continuing repercussions from the revelation 10 days ago that the name of Mr Kiichi Miyazawa, the deputy Prime Minister and Finance Minister, appeared on one of the lists of Recruit Cosmos shares distributed to prominent people.

Last week, debate on the Government's tax reform proposals came to a halt as opposition politicians demanded Mr Miyazawa's resignation after the minister admitted that his name was on a list.

He had earlier told the Diet (parliament) that he had not been involved in the share distribution, and he continues to deny that he was the beneficiary of these share transactions.

So far, Mr Noboru Takeshita, the Prime Minister, appears to be standing by his minister, but without much enthusiasm. He told a rally at the weekend that he did not question Mr Miyazawa's "direct responsibility" in the affair, but said it was natural that his moral authority should be questioned.

He also appeared to accept opposition demands that three key witnesses to Mr Miyazawa's involvement be brought to testify in the Diet. The LDP is expected to respond formally to this today.

Mr Miyazawa says the shares were bought by a friend of a former aide using his (Mr Miyazawa's) name and a forged name stamp.

He also claims that the Y[illegible] ([illegible]) profit on their subsequent sale was kept by the same man, a Tokyo businessman, Mr Yasufumi Kawai.

In answer to a question in the Diet, Mr Miyazawa said he had no intention of pursuing Mr Kawai for forging his name stamp. Whatever Mr Takeshita may feel about the Miyazawa affair, it is generally agreed that he would not want to lose his Finance Minister in the middle of the current effort to push through tax reform.

Indeed, analysts suggest that the only circumstance under which he would willingly concede Mr Miyazawa's departure would be if the Finance Minister could act as a scapegoat for the Recruit affair, thus making it possible to expedite the tax reform.

If he did ask Mr Miyazawa to resign, however, some analysts wonder if he would agree to go quietly. They point out that aides of other leading politicians, including the Prime Minister, have been identified as recipients of Recruit shares.

And even if he did go, it is not clear that all the members of his faction within the LDP would remain committed to the tax reform or to the Government. The Miyazawa faction, one of the four main ones in the party, is known for being fractious.

Also, it is difficult to imagine the opposition parties agreeing to such a move. They still oppose the tax reform, and they point to public opinion polls which suggest that a majority of the public is against it as well.

On the other hand, there is probably a limit to how far they want to push the LDP. Some of them have been implicated in the Recruit scandal as well, and many believe that they would stand to lose seats if they forced a general election.

One certain thing is that the tax reform cannot be completed within the current extended special session of the Diet, due to end on November 24.

Debates on important bills normally require a minimum of 30 days in the House of Representatives and 25 days in the House of Councillors. Thus, the LDP, which is pretty good at extricating itself from difficult positions, may have to try to persuade the opposition parties to extend the Diet again.

FINANCIAL TIMES

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Paris to reduce top VAT rate in budget deal

By George Graham in Paris

THE FRENCH Government has agreed to cut its top rate of value added tax (VAT) from 33.33 per cent to 28 per cent in a deal aimed at winning the passive support of centrist members of Parliament for its budget.

In return for the VAT cut and a reduction in the top rate of professional tax from 5 per cent to 4.5 per cent, centrist members abstained in a crucial vote on Saturday, allowing the income side of the budget, including the controversial wealth tax, to pass.

The Government also conceded a reduction in the housing tax for low-income families, thereby ensuring the abstention of the Communist members of parliament and winning the budget vote by 274 to 229.

The Socialists and other centre-left supporters of Mr Michel Rocard, the Prime Minister, failed to win an outright majority in June's legislative elections. The annulment on Friday by the Consitutional Council of the election of Mr Job Durupt, Socialist member for Meurthe-et-Moselle, has pared the margin even thinner, so increasing the weight of the 27 Communist and 41 UDC members.

Mr Pierre Mehaignerie, leader of the centrist UDC group and Minister of Housing in the last right-wing Government, yesterday described his members' abstention as "the expression of a new form of constructive opposition."

The French top VAT rate of 33.33 per cent, applying to luxury items such tobacco, hi-fi equipment, furs, caviar and perfumes, is one of the highest in the European Community. The right-wing Government of Mr Jacques Chirac had already lowered the rate to 28 per cent for cars.

The Government has also already agreed in this year's budget to reduce the 7 per cent VAT band, including books and public transport, to the lowest rate of 5.5 per cent, and faces the prospect of further cuts if it is to meet the European Commission's proposals to harmonise VAT in the Community at 14 to 20 per cent for the normal rate and 4 to 9 per cent for the reduced rate.

Mr Rocard, however, has criticised the Commission's proposals, and has in the past few weeks clashed openly with Commission president Jacques Delors over the implementation of VAT harmonisation.

Europe's federal imperative, Page 24

Soviet poll law to allow more choice

By James Blitz

THE SOVIET people will be allowed to vote in multi-candidate elections, with candidates allowed to finance public campaigns, under a proposed electoral reform.

But the changes do not acknowledge the right of different political parties to stand for election, although several non-political groups will be permitted to compete against the Communist Party for seats in the newly-formed Congress of People's Deputies.

The reform was proposed by Mr Mikhail Gorbachev at last June's extraordinary party conference, and officials have been working on the amendments since. These will be debated in the Soviet press before being voted on by the Supreme Soviet next month.

Some Western observers believe the amendments will alter the Soviet political system radically and reduce many of the Communist Party's powers in an attempt to make government more accountable.

Under the draft law, the new Congress will meet once a year and elect the President and the Supreme Soviet legislature. The latter's power will be strengthened considerably by the ability to elect officials and carry out a number of checks on the party executive.

Storm brings economic disaster to Nicaragua

By Tim Coone in San Salvador

NICARAGUA faces an economic disaster after Hurricane Joan brought death and destruction over the weekend. President Daniel Ortega said at least 50 people had died and 300,000 forced from their homes.

The storm, which he called the most destructive natural disaster in Nicaragua's history, destroyed thousands of homes, ruined crops and produced flash floods throughout the country, including the capital Managua.

Blowing at hurricane force when it hit the country's Caribbean coast at Bluefields at dawn on Saturday, it damaged or destroyed an estimated 90 per cent of the homes in the town of some 30,000 people.

By the time the bad weather crossed the central highlands and reached the capital Managua, on the Pacific side of the country early on Sunday morning, its designation had been downgraded to that of tropical storm. Torrential rains are thought to have produced the most devastation, washing away roads, flooding farm land and inundating or sweeping away thousands of homes. An estimated 15 inches of rain have fallen in two days.

Accurate casualty and damage reports are slow, due to the isolation of many areas directly hit by the storm, especially on the Caribbean coast where most communities can only be reached by boat.

There is special concern for the several thousand people on Corn Island, about 50 miles off Bluefields. It was reported that not a house is left standing on the island.

The Government attempted to evacuate 70,000 people from low-lying areas in Managua likely to be affected by flooding. However, according to people assisting the evacuation effort, many refused to leave their homes, not believing the warnings on the extent of the danger.

Hurricanes rarely strike the south-west Caribbean and President Ortega admitted on Saturday that his country could not deal with a disaster of this magnitude. Vice-President Sergio Ramirez is to depart shortly for Europe in an effort to raise economic support and aid. Mr Ortega said seven relief flights from Cuba were due in Bluefields yesterday. He repeated his call for international help.

The storm comes at a most inopportune moment for Nicaragua's war-ravaged economy and is likely to have ruined basic grain crops and badly damaged the vital export crops of cotton and coffee.

Maize, beans, coffee and cotton production are the mainstays of the economy and the heavy damage done by the storm threatens to undo completely the major efforts made by the Government over the past nine months to reorder the economy and to bring hyperinflation under control. Last year inflation topped 5,000 per cent.

A state of emergency for 30 days has been declared, suspending many constitutional guarantees including the right to strike, freedom of expression, and the right to demonstrate.

The opposition is already claiming that the Government is using the disaster to quash growing discontent about its new market-oriented economic policies which have slashed real incomes of fixed wage-earners by more than 70 per cent in the course of the year.

Mexico sets privatisation rush

By Richard Johns in Mexico City

THE MEXICAN Government is relying on the privatisation of 30 public sector companies, within little more than a fortnight, as a way to meet its strict expenditure targets in the face of falling petroleum revenues.

Senior officials say the sale of these state entities will raise 700bn pesos (£174m) and so limit public spending cuts made necessary by the precipitous drop in oil prices.

The Government aims to dispose of the assets in a brief period, starting tomorrow and ending on November 10, as part of its continued austerity programme and the fight to beat inflation.

The two big copper companies open to bids, Cobre de México and Compañía Minera de Cananea, are not among the 30 entities. However, as many as 50 companies could be sold, so as to raise a far larger sum to compensate for the revenue shortfall, according to officials.

Also, the Government has further reduced its expenditure by 500bn pesos to take into account the drop in per-barrel oil revenues, now conservatively estimated at only $9.50 for the last quarter of 1988. The latest measures are in the pursuit of maintaining a "primary" budget surplus (excluding interest payments) of 8.3 per cent of GDP.

Mexican communists to join left opposition

By Our Mexico City Correspondent

MEXICO'S mainstream Communists are set to join the new opposition Party of the Democratic Revolution (PRD), whose formation was announced last week by Mr Cuauhtémoc Cárdenas, leader of the broad left coalition.

Because membership of the new party is to be on an individual basis, the Mexican Socialist Party to which the Communists adhere is expected to dissolve itself.

The Socialist Party's decision to join forces formally with a movement that includes Social Democrats and Liberals has been one of the most controversial and difficult aspects of Mr Cárdenas's efforts to form a new party.

Warsaw ready to 'sit-out' Solidarity strikes

By Christopher Bobinski in Warsaw

AS Solidarity and the Polish authorities continue to wrangle over preparations for "round table" on the country's future, a Polish minister has signalled determination to ride out any strikes.

"We shouldn't react (to strikes) in a nervous way" said Mr Mieczyslaw Wilczek, industry minister, at a conference of worker activists, called to demonstrate support for the leadership.

Mr Jerzy Urban, the official spokesman, has said that Mr Lech Walesa, the Solidarity leader, had refused an invitation for preliminary talks with Gen Czeslaw Kiszczak, the interior minister, about the round table. The talks are expected to start at a former stately home outside Warsaw towards the end of this week.

Mr Urban appealed to Solidarity to co-operate in the preparation, as union spokesmen voiced fears that the authorities were seeking to delay the talks and avoid facing the movement's central demand for re-legalisation on the shop floor.

Issues dividing the two sides include government complaints about the composition of the Solidarity line up, procedural questions, and the fact that the authorities propose to field a second-rate negotiating team, raising fears that the results of the talks may be ignored by the Communist Party leadership.

Radical Swedish plan

By Robert Taylor in Stockholm

SWEDEN's Social Democrats are to introduce radical measures designed to make the market economy work more effectively by stimulating competition, tax cuts and encouragement of personal saving.

An outline of forthcoming proposals was given in yesterday's Svenska Dagbladet newspaper, by the Finance Minister, Mr Kjell Olof Feldt.

It amounts to a new change of direction for the Swedish economy. Key elements include:

- Reform of the complex tax system with the promise of substantial cuts in marginal rates of taxation.
- The break-up of bottlenecks in the labour market through the encouragement of pensioners to come back to work and greater opportunities for foreign workers
- Tax incentives for small companies

OVERSEAS NEWS

Chile to buy 12 Israeli-powered Kfir fighters

By Barbara Durr in Santiago

CHILE'S Air Force is to buy 12 Israeli Kfirs, fighter-bombers comparable to the latest version of the French Mirage 3000.

Under the deal, Chile is to send its 16 old F-5 fighters, made in the US, and $60m (£34m) to Israel in exchange for the Kfirs. Earlier interest from Iran in buying the F-5s stirred controversy in Washington.

The Chilean Government cannot legally sell US aircraft without Washington's permission. Talks with middlemen on an Iranian deal were reported to have been squelched by a US ban. There have been hints in US media that the possible sale to Iran could have been linked to US hostages held in Lebanon by pro-Iranian Shia Moslems.

General Fernando Matthei, Chile's Air Force commander, said Chile was "not involved in the black market of weapons" and had never sold anything to Iran.

The Kfirs will be equipped with ATAR 9K50 engines, made under an Israeli-South African military co-operation pact. This engine supersedes the Kfir's General Electric engine, made in the US, because of the US prohibition on arms sales to Chile.

The deal with Israel, one of Chile's more important arms suppliers, is favourable to Santiago. The going price for an old, unrenovated F-5 is about $3m and a new Kfir runs to about $11m. The 12 Kfirs would have cost $132m in a simple purchase but Chile is acquiring them for a total value equivalent to $108m. This reduces the cost to $9m per Kfir.

● In his first important move since he lost a plebiscite on October 5, President Augusto Pinochet has made nine cabinet changes in his 18-member government. However, he insisted that he would not accelerate the country's return to democracy.

The constitution provides for presidential and congressional elections in December 1989. The general affirmed that he would hand power to an elected president in March 1990. This statement seemed to confirm that he would not try to retain the presidency through the ballot box, which the constitution specifically precludes.

Opec resists swallowing Saudi medicine — for now

Members are slowly coming round to a Gulf Arab idea with long-term aims

DR SUBROTO, secretary general of the Organisation of Petroleum Exporting Countries, made one promise at the weekend: oil production by Opec members would not rise any further for now.

However, with production ranging between 21m and 22m barrels a day, or up to 3m b/d above the Organisation's own demand estimates, this will hardly reassure the markets.

He had little else say about what had been accomplished at the meeting of eight Opec ministers in Madrid, beyond yet another airing of views. No agreement was reached on the most critical issue facing the cartel – how to coax Iraq back into the quota system – nor any of the other questions, for instance how much oil it ought to be producing, how to define oil covered by the agreement, what to do about the United Arab Emirates, whose repeated promises to observe its quota have amounted to nothing.

The failure to reach agreement is hardly a surprise given the complexity of the issues facing Opec and the depth of feeling about them, such as Iran's refusal to allow Iraq a production quota equal to its own. But this situation is unlikely to persist indefinitely because of the rather brutal logic of the situation into which Saudi Arabia has thrust Opec.

Saudi Arabia, and its Gulf allies, has proposed that Iraq be given a quota equal to Iran's, and that all members be allowed a proportionate rise to whatever ceiling Opec chooses, probably close to 19m b/d. If that idea, or some variant of it, is not accepted (and Iran appears to be the only real hold-out), the Saudis will continue to flood the world with oil, driving down prices, and revenues in countries unable to match the rise in volumes.

Venezuela has already acquiesced to this logic, after strongly opposing a higher quota for Iraq that would reduce its own share of the Opec pie.

"We have tasted the Saudi medicine," said Mr Julio Cesar Gil, the Venezuelan Oil Minister. His country will now approve the higher Iraqi quota provided it is allowed to produce more under a higher total Opec production ceiling.

The proposal of the Gulf Arab states, however, is seen as more than just a quick a fix for an ailing cartel. It is meant as a first step in a strategic repositioning of Opec to cope with the prospect, seen by some members, of continued weak oil prices at least until the end of the century.

Some countries want to abandon the concept of Opec's role as residual oil producer, forced to raise and lower production to balance the world market and to keep prices steady. This has obviously failed.

Instead the Gulf Arab proposal envisions that the cartel will produce a fixed volume, aiming eventually for a price range in the region of $18 but allowing the market to set actual prices.

There are several variants of this scheme, and discussions are going on about setting up a trigger mechanism should prices vary too widely from the Opec target. This would ensure a certain market share for Opec members and introduce some stability into markets, provided, of course, that Opec nations actually stick to the agreement.

Indeed, it was this question of Opec's utter lack of credibility which occupied much of the ministers' time. "We can do nothing if any country advances any excuse to avoid honouring its signature," said Mr Belkacem Nabi, the Algerian minister.

The ministers were seeking a more transparent system which would encourage better compliance. The previous one of fixing both prices and volumes put members under great pressure to cheat because changing market conditions quickly made production agreements obsolete.

Although it is difficult to evaluate the outcome of these discussions on credibility, the minister were plainly satisfied that something important had been accomplished. The approach is an attempt to adjust realistically to the prospects of continued strong non-Opec oil production and the impossibility of sustaining high oil prices.

The Organisation clearly has a lot of work to do in November, but it would be an act of economic self-destruction should Iran and Iraq walk away from an agreement, a fact both countries recognise. Mr Gholamreza Aghazadeh, the Iranian minister, said yesterday: "Either all 13 members sign the agreement, or there is nothing." And "nothing" means a production free-for-all in which all Opec members are certain to lose heavily.

Iran to allow Islamic political parties

By Our Foreign Staff

IRAN announced at the weekend that it was easing restrictions on political parties. This is expected to strengthen the hand of the pragmatists in the Iranian government.

Mr Mohammad Mohammadi Reyshahri, Information Minister, said in a statement via the Iranian news agency that parties could operate freely as long as they showed commitment to the Islamic system.

There would be some limits on party activities, he added. Observers said the authorities might tolerate criticism but were unlikely to allow outright opposition. The Iraqi-backed Mujahedin Khalq guerrilla movement and party dismissed the announcement as a public relations ploy.

Ayatollah Ruhollah Khomeini abolished the main government party, the Islamic Republic Party, last year. This was seen as a blow to the pragmatists led by Mr Ali Akbar Rafsanjani, the parliamentary speaker. He was later made armed forces chief and is in the ascendant, having engineered the Gulf War ceasefire.

There is thought to be no prospect that the Mujahedin or other main exiled parties will be recognised. Many parties were banned and went underground after armed clashes between opposition and government forces in 1981. The pro-Moscow Tudeh party was outlawed in 1984.

Six Palestinians killed in south Lebanon fighting

By Andrew Whitley in Jerusalem

SIX PALESTINIAN guerrillas were killed yesterday in southern Lebanon, in a clash with a combined force of Christian militiamen and Israeli helicopters. It was the third fire fight since Friday in the border security zone.

Israeli troops, with their ally the South Lebanon Army (SLA), have made dozens of arrests in the region over the past few days in connection with a car bomb attack on Wednesday when eight Israelis and the suicide bomber died. Six soldiers were killed *instantly and a further two* died later of their wounds.

Those detained, who include relatives of the bomber, are reported to be held by the SLA at its notorious Al Khiam detention centre, not far from *the site of the explosion.* Israel Radio said those suspected of involvement would be put on trial under Lebanese law, and could face execution by firing squad.

A statement from the radical Popular Front for the Liberation of Palestine acknowledged that four of its fighters were missing after a dawn attack on a position held jointly by Israeli and SLA forces on the slopes of Mount Herman. For its part, it claimed to have inflicted 10 casualties.

Fighting in southern Leba*non has shown a marked* increase in the approach to Israel's general election on November 1. By contrast, the occupied West Bank and Gaza Strip have been comparatively quiet.

UK tries to reassure Kuwait

A BRITISH government minister is touring the Gulf to assure leaders there that the UK welcomes Arab investments. This is despite the fact that the Kuwait Investment Office has been ordered to cut its stake in British Petroleum from 21.68 per cent to 9.9 per cent over the next year, Reuter reports, quoting the Kuwaiti daily al-Watan.

Mr William Waldegrave, Minister of State for Foreign Affairs, said: "We hope that the BP case will remain a casual incident that will not affect our relations with Kuwait . . . We highly appreciate the wise policy of the Kuwait Government, particularly on the BP stake. They expressed their disappointment and anger but, at the same time, they pointed out that the issue should not form a block in the path of positive relationships between Kuwait and Britain."

Capitalisation £000's	Company	Price	Change on week	Gross div (p)	Yield %	P/E
7920	Ass. Brit. Ind. Ord	235	0	8.7	3.7	8.8
-	Ass. Brit. Ind. CULS	235	0	10.0	4.3	-
950	Armitage and Rhodes	38	0			
2981	BBB Design Group (USM)	96	-2	2.1	9.7	5.7
116529	Bardon Group	171	+1	2.7	1.6	29.2
29064	Bardon Group Conv. Pref.	115	0	6.7	6.7	-
7000	Bray Technologies	127xd	-3	5.2	4.3	9.7
	Brenhill Conv Pref	110	-1	21.0	20.0	-
1079	CCL Group Ordinary	284	+1	12.3	4.3	4.3
2050	CCL Group 11% Conv Pref	164	0	14.7	9.0	-
16740	Carbo Plc (SE)	151xd	0	6.7	4.0	13.1
784	Carbo 7.5% Pref (SE)	122	0	10.3	9.2	-
6163	George Blair	394	+4	12.0	3.6	7.4
9002	Isis Group	113	+3	-	-	14.9
11584	Jackson Group (SE)	110	-2	3.3	3.0	12.2
23081	Multihouse N.V. (AmstSE)	296	-2	-	-	-
1173	Robert Jenkins	115xd	+2	7.9	6.5	4.3
18270	Scruttons	406xd	+1	8.0	2.0	36.9
8654	Torday & Carlisle	280	0	7.7	2.8	13.6
	Torday & Carlisle CNV PRF	100	0	10.7	10.7	
3734	Trevian Holdings (USM)	87	+6	2.7	3.1	9.4
	Unistrut Europe Conv Pref	108	0	8.0	7.6	-
6137	W. S. Yeates	311	+4	16.2	5.2	39.8

OVERSEAS NEWS

Euro-Soviet talks could lead to joint space flights

By Peter Marsh

THE 13-nation European Space Agency plans to start talks next year with the Soviet Union that could pave the way towards routine joint manned space flights involving Western Europe and the Soviet Union.

The discussions will focus on efforts to ensure that Hermes, a manned space vehicle the agency is developing for use in the late 1990s, will be able to dock with Soviet space stations such as the Mir unit now in orbit.

The plans illustrate the increased interest by many Western nations, including the US, in responding positively to signals from Moscow that it wants to co-operate with the West in space endeavours.

Ideas on linking Hermes with Soviet space stations go considerably further, however, than plans in the US for collaboration in space with the Soviet Union, which until now have mainly involved unmanned scientific efforts.

The European plans may worry conservative elements in the US – with which Western Europe is already co-operating in a range of manned space projects – especially on the grounds that they could involve transfer to the Soviet Union of information on militarily sensitive technologies.

The impending discussions between Moscow and Western Europe underline the keenness of the European Agency to instigate a twin-track policy of collaboration on manned space programmes with both superpowers.

Western Europe last month completed an agreement with the US pledging its help in developing a US-led international space station planned for the late 1990s and due to cost about $25bn (£14bn).

Hermes is being built, at a cost of some $5bn, largely to ensure that Western Europe has its own independent means of access to the US-led orbiting base, which will be permanently crewed by about eight people.

Prof Reimar Lüst, ESA director general, said it made sense to ensure that Hermes was compatible not only with the Western space station but also with manned space bases operated by the USSR.

He said he thought the Soviet Union would be eager to ensure its manned bases could be visited by Hermes.

The talks between Moscow and Western Europe next year are due to look at the technical feasibility of the docking manoeuvres between Hermes and stations like Mir. Mir has been in orbit since 1986 and has been home to cosmonauts for nearly a year at a time.

Later, the collaboration could develop into plans for joint manned flights between the Soviet Union and ESA.

Discussions on how Western Europe and Moscow could come closer in co-operation in space is expected to feature during talks this week in the Soviet Union involving Mr Mikhail Gorbachev, the Soviet leader, and Chancellor Helmut Kohl of West Germany.

After France West Germany is Western Europe's biggest spender on space technology and is one of ESA's most influential members.

Telecommunications markets boom in Europe predicted

By Hugo Dixon in Brussels

EUROPE's telecommunications markets will grow at 9 per cent a year over the next five years, generating revenues of more than $100bn (£57bn) by 1992.

Within this generally rosy picture, however, there will be marked differences in the performances of various segments of the industry. The markets for public and private telephone exchanges – the mainstay of the telecommunications sector in recent years – will only creep upwards, while those for mobile communications, facsimile and data communications will show explosive growth.

These are some of the forecasts presented by Dataquest, the market analyst, at a conference on the European telecommunications industry in Brussels last week.

The main thrust of the analysis is to outline the opportunities and dangers facing the industry in the approach to 1992.

Dataquest's specific forecasts for the next five years are:

● Western Europe's telecommunications markets will grow to $105bn in 1992 (from $67bn in 1987), a growth rate more than double that which the US is expected to experience over the same period.

● The modernisation of Europe's telephone networks is already in full swing and so the market for public digital exchanges will grow only slightly to $8.2bn ($3bn). Most of this will be accounted for by West Germany.

● The market for private exchanges (PBXs) will grow only modestly to $2.6bn ($2.2bn).

● Cellular or car telephones will continue their spectacular growth, with the number of subscribers in western Europe more than tripling to 5m by the end of 1992. The cellular equipment market will increase by 25 per cent a year to $1.6bn in 1992.

● The facsimile equipment market will reach $4.3bn ($1.6bn). Japanese manufacturers will strengthen their hold.

● Data communications markets will perform strongly, generating sales of $5.2bn in 1992 ($2.5bn). These markets will be increasingly dominated by local area networks.

● Manufacturing and retailing will take over from financial services in providing stimulus for extending value-added telecommunications services.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Sept.'88	Aug.'88	Jul.'88	Sept.'87
USA 000's	6,596.0	[illegible]	[illegible]	7,091.0
%	5.4	5.6	5.4	5.9
UK 000's	2,311.0	2,291.2	2,326.7	2,870.2
%	8.2	8.1	8.2	10.2
W.Germany 000's	2,246.0	2,251.0	2,265.0	2,252.0
%	8.7	8.8	8.9	9.0
Belgium 000's	381.4	394.8	402.2	423.2
%	11.2	11.4	11.3	12.2
	Aug.'88	**Jul.'88**	**Jun.'88**	**Aug.'87**
France 000's	2,613.5	2,578.3	2,556.8	2,632.0
%	10.4	10.2	10.4	10.6
Netherlands 000's	681.7	679.9	694.9	682.0
%	14.2	14.1	13.8	14.3
Italy 000's	3,870.0	3,850.0	3,762.0	3,262.0
%	16.7	16.6	16.2	14.1
Japan 000's	1,480.0	1,440.0	1,560.0	1,680.0
%	2.5	2.4	2.5	2.8

Source: (except US, UK, Japan) Eurostat

SHIPPING REPORT

Demand in Middle East lessens

By Kevin Brown, Transport Correspondent

THERE were few openly reported deals in the Middle East tanker market last week, and brokers said rates appeared likely to ease in the coming weeks from the improved levels of early October.

However, Saudi Arabian charterers were said to have fixed several large vessels towards the end of the week on a private basis, possibly absorbing up to 2m deadweight tonnes of shipping.

Most of the open inquiries came from Japanese charterers, and Tokyo Tankers was reported to have chartered the 310,000 dwt Orpheum to Japan at Worldscale 47.5.

The Philippines National Oil Corporation was also said to have fixed a 260,000 dwt vessel to the Philippines for a part cargo of 220,000 tons at Worldscale 52.5.

Some of the slack in the Gulf was taken up by increased demand for VLCCs in the eastern Mediterranean. Brokers said the going rate for ships of around 260,000 dwt was Worldscale 55 for US Gulf discharge, and Worldscale 65 for north-west Europe.

There was also substantial demand in West Africa for ships of around 130,000 deadweight, and two fixtures to the US Gulf were reported at 62.5 and 61.25.

Banana skins on path to EC single market

Tim Dickson reports on the struggle to harmonise a Community import regime

BANANAS – known since the sixth century BC as the Fruit of the Wise Man – are suddenly posing a problem which even the best brains in Brussels seem unable to resolve.

The consistency of the European Community's programme for a single market is under attack, political and economic obligations to some of the world's poorest nations are at stake and the very credibility of the EC's commitment to scale down agricultural protectionism, say some observers, hangs on the outcome of the dispute.

"The question is so sensitive that no one even wants to talk about it at the moment," a senior European Commission official admitted this month. "Bizarre as it may seem, it is the sort of issue which will probably be decided in the Chancellery in Bonn, the Elysée Palace in Paris, and Number 10 Downing Street in London."

Thanks to member states' historical ties to different banana suppliers around the globe, Europe does not have a common regime for the yellow-skinned fruit – a state of affairs which runs directly counter to the prevailing Brussels orthodoxy of getting rid of fragmented internal markets by 1992.

Lord Cockfield, the EC's internal market Commissioner, cannot simply wave his magic wand in this case. The ways in which member states treat bananas have not only evolved differently, they were designed to suit vastly different political purposes.

About 20 per cent of Europe's total consumption – 500,000 tonnes out of 2.4m imported bananas in 1986 – come into the Community duty-free from former British, French and Italian colonies under Protocol 4 of the Lomé Convention, the trade and aid pact which governs relations between the EC and 66 African, Caribbean and Pacific (ACP) countries.

The basis for the Lomé arrangements is that the ACP banana-producing states and areas (Jamaica, Windward Islands, Belize, Surinam, Cameroun, Ivory Coast and Somalia) simply cannot compete with "dollar bananas" – the industry's jargon for the cheaper and generally better fruit from the huge plantations of Central America (notably Costa Rica and Guatemala).

Commonwealth Caribbean countries do not have the advantages of climate and large land areas of their Central American rivals. In a free market, Commonwealth Caribbean banana exports to Europe – on which their economies are heavily dependent – would collapse.

"Dollar" imports to the UK, France and Italy are thus limited by licence to an amount required to satisfy demand after ACP exports have been taken into account.

A further 30 per cent of total EC consumption is provided by the Community's own producers – notably the French Overseas Territories (DOMs) of Guadeloupe and Martinique, the Spanish Canary Islands, the Greek island of Crete and the Portuguese island of Madeira.

All the member states governing those producers have preferential arrangements in one form or another to protect their own growers, though Spain and Portugal are in transitional phases and Greece was ordered this year by the European Court of Justice to accept other bananas (both ACP and "dollar") which are in free circulation in other member states.

The French case for supporting its DOMs is similar to the justification for the ACPs – severe social and political disturbances would be caused if banana production in these territories had to be drastically cut.

The EC position is made more complex by the huge duty-free quota for West German imports, which is set by Bonn each year to meet domestic demand and is supplied overwhelmingly from the "dollar" area. The origin of this 'special' situation can be traced to the earliest days of the Community. Exemption from the common tariff rules on bananas was a key West German condition for its signature of the EC's charter, the Treaty of Rome. It could be compared with the arrangements for New Zealand butter made at the time of Britain's accession in 1973.

1992 THE EUROPEAN MARKET

Romantics like to believe that Germans saw the fruit as a symbol of liberation after the misery of the Second World War blockades. The truth, however, is probably more prosaic. Importers possessed considerable political influence over Chancellor Konrad Adenauer at the time of the treaty negotiations and they still sway the main political parties through contributions to party funds.

Belgium, Denmark, Ireland, Luxembourg and the Netherlands, meanwhile, all have free markets and import "dollar" bananas with a 20 per cent customs duty.

One can argue that the various bilateral arrangements operated by member states have been more or less satisfactory to all except the consumer, but the pressures for change are rising. This is due not only to the move towards a single market after 1992 but also to the increasing US-backed calls for liberalisation in the current multilateral trade talks.

"Is it correct that growers of inferior quality produce can always hide themselves behind Community preference and that the wishes of the consumer, which can be seen from 'dollar' bananas, are totally neglected?" asked Eucofel, the European Union of the Fruit and Vegetable Wholesale, Import and Export Trade, in a pointed statement on the subject this year.

Such comments explain why there has been a distinct atmosphere of banana jitters in the approach to the negotiations for a new EC/ACP Convention, to displace the present Lomé pact when it runs out at the end of February 1990.

ACP delegates are afraid Protocol 4 of the current agreement may be modified or abolished. It says: "In respect of its banana exports to the Community markets, no ACP state shall be placed, as regards access to its traditional markets and its advantages in those markets, in a less favourable situation than in the past or at present".

Among the options informally canvassed so far is what is known as the "free trade" solution, by which all "dollar" bananas, including those imported to West Germany, would be subject to a 20 per cent duty; ACP bananas would continue to enter the Community duty-free.

This approach is likely to run into strong, if not insuperable, opposition from Bonn. Most observers accept that, if it were implemented, the big "dollar" brands (produced, marketed and distributed by large US companies) would ultimately eliminate the EC's own production as well as the ACP suppliers.

Even aid to ease the transition would not help much. As a paper from the Commonwealth Banana Exporters' Association and its marketing partners argued recently: "In the Caribbean banana-producing states, especially [those of] the Windward Islands, there is no substitute crop to bananas which would provide the same levels of employment and revenue. Compensation and encouragement to diversify are not options."

A second approach – fixture of a global EC quota for "dollar" bananas, to be administered via individual national quotas – would more or less preserve the status quo but would hardly be acceptable to internal market purists.

A third choice – a minimum import price for all imports, with dollar varieties subject to a 20 per cent levy and ACP bananas continuing to arrive duty-free – would only reconcile some of the difficulties. It is not considered the full answer to the problem.

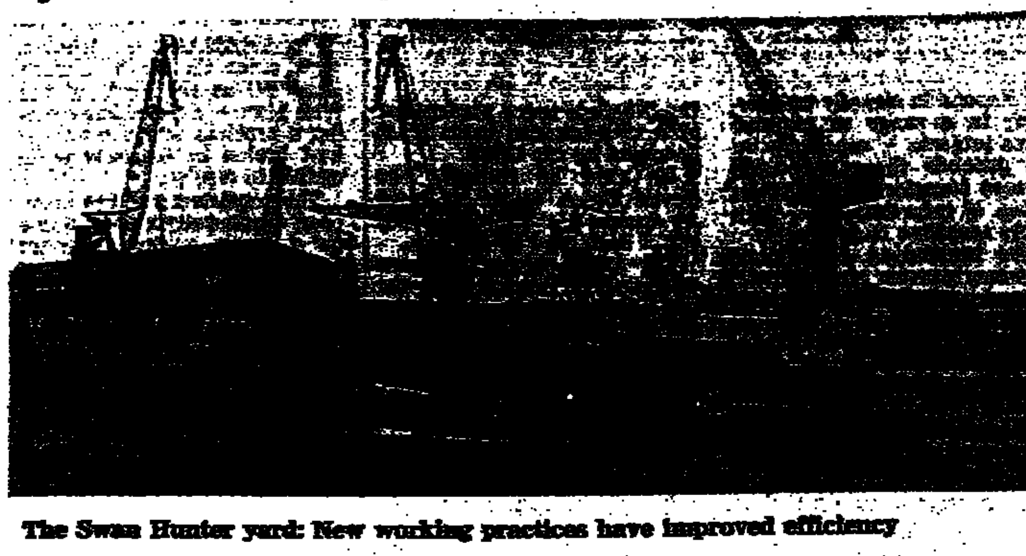
Many proposals have been discussed but the Commissioners have not been able to reach clear conclusions. The various departments of the Brussels executive seem to be paralysed by indecision so the Lomé talks could well settle the EC's approach to the problem.

The single-market banana skin is unlikely to be easily avoided, however. As one Commission expert observed philosophically: "When we come to stop the clock on 31 December 1992, because some areas of the internal market are not in place, I fear that this issue will be prominent on the list."

UK NEWS

Shipbuilder proves its craft in the market

Ian Hamilton Fazey examines changes that have turned the tide for Swan Hunter



The Swan Hunter yard: New working practices have improved efficiency

TOMORROW, as the Swan Hunter brass band plays proudly in the company's Wallsend shipyard on the banks of the Tyne, a party of dignitaries and VIPs will make their way to a small platform near the bows of the Sir Eric Sharp.

A bugle will sound and after a short religious ceremony Lady Sharp, wife of the chairman of Cable and Wireless, will launch the ship that bears her husband's name.

The event will be significant for several reasons. One is that the 3,000-tonne vessel is a high-technology, state-of-the-art cable layer and maintenance craft, carrying its own submarine — the first of its type to do so.

Another is the speed with which she has been built. The order, from Cable and Wireless, was announced only 14 months ago. Design work was rushed through and the keel laid only last January. Fitting out after launch will see the vessel delivered in March.

Perhaps the most significant thing, however, is that this will be Swan Hunter's biggest non-military project since the yard was privatised from British Shipbuilders via an almost giveaway £5m management buy-out less than three years ago.

The contract is not only bringing in £28m from the private sector but is allowing Swan Hunter to prove itself in the global shipbuilding market-place. It represents a coming-of-age: the company is showing it can stand on its own feet in a world far removed from the government contracts that sustained it as part of a nationalised industry.

Swan Hunter has got this far in spite of considerable trauma and no little early bitterness. Government orders — hinted at but not promised when the managers bought the business — failed to materialise. Hundreds were sacked, cutting the number of workers to about 3,000.

The company — rusty in the private-sector market-place because British Shipbuilders had forbidden it to chase exports for 10 years — was faced with a desperate rush to find non-military, private-sector work from overseas navies before it ran out of UK government work and foundered.

It is not in the clear yet and there may still have to be more redundancies. However, prospects look better than they have for years. This is crucially important for the north-east, faced as the region is with the collapse of its state-owned shipyards on the nearby River Wear at Sunderland.

Every job at Swan Hunter is fed or serviced by at least four others in businesses which supply the shipbuilder with goods and services ranging from steel plate to paper clips, or floppy disks to rubber bands. Mr Alex Marsh, chief executive, says: "A successful Swan Hunter must be a major linchpin in any regeneration of the Tyneside economy."

Apart from the cable layer, Swan Hunter has three big contracts under way and is tackling them with fewer people and higher levels of productivity than it has ever had.

HMS Chatham, a Type 22-14 frigate, has been launched and is being fitted out. HMS Marlborough, a Type 23-02 frigate, will go down the slipway in January and the steel is now being cut for a naval refuelling vessel, the RFA Fort George.

Microwave ovens and coffee machines might appear to have no possible connection with the launch of the Sir Eric Sharp. However, they symbolise changes in corporate culture and attitudes which managers say would never have been attempted, let alone achieved, when the business was state-owned.

The coffee machines used to be away from the ships, which meant that mid-morning breaks took twice as long as they should have as everyone trooped off and back for refreshments. Agreement to put them on to the vessels saved time and gained efficiency.

The microwave ovens tell a tale of unspoken class warfare. Workers' canteens were probably no more deficient than in many other old British factories, but the workers' solutions were the same — gas rings, grills, microwave ovens, electric kettles and the like tucked away in forgotten sheds or corners for little groups to do their own fry-ups.

Staff — management and clerical workers — had canteens unsullied by colleagues in overalls. All that is ending.

Mr Marsh says: "Investment in amenities has been important. The change in working conditions has been allied to a change in attitudes to training. Moving to single-status canteens and getting rid of poor facilities matters. We are making sure people have clean overalls once a week — and we are stopping the fry-up on the quiet."

However, these things are consequences of change, not central to it, for it was the prospect of corporate death if the yard did not become efficient and competitive which was the main spur.

Swan Hunter this year concluded its second two-year agreement on pay and conditions with all its employees. These have conferred a stability in the working environment not experienced before, helping everyone concentrate on achieving change in working practices rather than facing little respite between annual bouts of pay bargaining.

Crucially, the agreements allowed increasing flexibility over who did what. Demarcation disputes — where groups of craftsmen kept "their" work to themselves and would not do others' tasks — are no longer possible. Even distinctions such as the time-honoured one between shipbuilders and outfitters have been broken down.

Also, managers have had the right to manage confirmed. "We are able to take whatever option is best suited to the company's future," Mr Marsh says.

However, they are aided by the workforce. Teams of between five and 10 workers each confer continuously under an unpaid team leader on improvements to quality and methods.

Mr Peter Vaughan, joint managing director, stresses that the gains have also come about because continuous investment has gone hand in hand with changes in attitudes and working practices.

The company's assets on privatisation included £3m of newish computer equipment, which had been installed to move Swan Hunter into the modern era of design and manufacturing technology.

This alone made the company a bargain for the managers. They have never ceased to develop it further, creating what Mr Vaughan calls a virtuous circle — more investment produces greater efficiency, which means stronger cash flow and more profit, which in turns means more is available for yet more investment.

Meanwhile, he has led the foray for exports in a market where lead time for orders from foreign governments runs into years. The first glimmerings of competitive success have come with refits of two West African patrol boats — both built and equipped originally in West Germany.

Another key order is for consultancy — transferring Swan Hunter's advanced warship-building technology to the Australian Navy. Mr Marsh says: "It is worth only tens of thousands of pounds but it is strategically important because it means we are working within the Anzac frigate programme and can reasonably hope for more work."

Similarly, tomorrow's launch will have a strategic importance for Swan Hunter's future in private-sector shipbuilding markets.

About a quarter of its present £80m annual rate of turnover has come from sources other than the UK Government. There are still too many eggs in one basket, but the prospects of a better balance have never been better.

Retailing 'will alter after 1992'

By Maggie Urry

THE SINGLE European market will alter fundamentally the way retailers operate, according to a study of retailing and 1992 by the Corporate Intelligence Group, a retail consultancy firm.

UK retailers have lagged behind other business sectors in preparing for 1992, perhaps in the belief that retailing is a domestic activity that will not be affected by the changes, the study says.

The report, in analysing retailing in individual European markets, points out that "retailing is not a sector with a high profile at government levels in European Community negotiating procedures for the 1992 package." Retailers therefore need to lobby the EC themselves, through trade bodies such as the Retail Consortium.

Following the introduction of the single market, consumers will still do virtually all their shopping within their own countries. But, the report suggests, they may be tempted to buy some products because they have seen them on multinational satellite television.

Removing the trade barriers will widen the range of products available in stores and make distribution easier. UK retailers were already the most efficient in Europe in their distribution systems, the report claims.

In addition, British retailers will find it easier to expand into other European countries.

On the other hand, outsiders will want to move into the UK. "The UK retail sector should realise that it is itself seen as an attractive target, and prepare for approaches accordingly," the report warns.

UK retailers' profit margins are on average far higher than those of retailers in continental Europe, and legal restrictions on shops are less severe — making the UK interesting for retailers from overseas.

Other negative aspects of the single market for UK retailers include the likely imposition of VAT on goods such as food, children's clothes and books. This will tend to cut retailers' profit margins, the report says.

The main beneficiary of the single market among retail sectors could be mail-order concerns. At present there are many barriers to mail-order selling across frontiers.

Retailing and 1992 — the impact and opportunities. Corporate Intelligence Group, 51 Doughty Street, London WC1N 2LS. £720.

Shops' sales to rise 55% in five years, says study

By Maggie Urry

A MORE optimistic view than that prevailing in the stock market about the outlook for retail sales in coming years is published today by Verdict Research, the retail research group.

It predicts that retail sales will rise from £108bn in 1987 to £168bn in 1992, an increase of 55 per cent. That compares with a gain of 51 per cent between 1982 and 1987. Many commentators are expecting a slowdown in the rate of retail sales growth.

The forecast does include a rise in the rate of inflation, however, and suggests that volume growth in the next five years will be 24 per cent compared with 27 per cent during the past five.

Fastest growth will be seen by clothing and household goods retailers, Verdict believes. At a more detailed level, the best increases in sales will be shown by jewellers and toy and sports shops, each doubling turnover in the next five years; DIY shops with sales rising by 78 per cent and electrical retailers showing gains of 70 per cent.

The so-called out-of-town shops have in recent years shown a much faster rate of growth than stores in other locations. In 1980 only 4.8 per cent of retail sales were made in out-of-town shops. That had risen to 13.1 per cent in 1987, says Verdict, and will increase to 19 per cent by 1992.

Retailing - 1992. Verdict Research, 112 High Holborn, London WC1V 6JS. £950.

UK NEWS

BOC to declare dividends a year ahead

By Nikki Tait

BOC Group, the UK industrial gases and healthcare company, is to declare the total annual dividends it expects to pay to shareholders at the start of each financial year. The amount will be based on the group's expectations for that year.

BOC claims the new system, which comes into effect next month, makes it one of the first companies to tell shareholders how much income they will be receiving in advance of the year's trading results. It also intends to reduce the time between the annoucement of the dividend level and payment to shareholders.

At present, BOC decides on dividend levels twice a year. The company's financial year starts on October 1, and the first decision is made and declared in May, on the interim dividend to be paid the following October. The second, or final payment is decided in November – after the financial year-end – and paid the following April. As with many companies, BOC's interim payment is normally smaller than its final.

BOC concedes that the lengthy gap between the decisions being declared and the payments being made has provoked dissatisfaction among shareholders. However, it maintains this is due to administrative factors – in particular, problems caused by allowing shareholders the option of taking dividends in the form of additional shares – and the practical difficulty of arranging an annual general meeting during the Christmas period.

While looking at ways to cut down this delay, the entire system was reviewed, with some attention paid to typical US practice, where the first quarterly dividend is taken as an accurate marker for the year.

Under its new system, BOC will decide and declare the level of dividends for the year as a whole in November. It will then make two equal payments in February and August. It adds that it may eventually be able to speed up the sequence of events even further.

BOC, which has around 50,000 shareholders, puts the increased cost of the new system at about £1m a year but says this is relatively small given the size of the company, reducing earnings per share by only 0.1p.

It believes that shareholders, who will not be asked to approve the change, should welcome prompter payment. From the management's viewpoint, BOC says the dividend process will now be simplified, and suggests that its November payout announcement may help point up statements about expected trading performance.

BOC does not intend the announced dividend increase to be a precise reflection of expected earnings growth, however, although it says that "over several years" the two figures may be roughly similar. Over the past five years, the two have rarely moved in exact tandem.

Government may back Clowes 'lifeboat'

By Charles Hodgson

FURTHER indications that the Government would consider backing a "lifeboat" scheme set up by the City of London for investors in the collapsed Barlow Clowes investment group were given yesterday by Mr Francis Maude, Consumer Affairs Minister.

Mr Maude said discussion of a possible lifeboat scheme among financial institutions and professional bodies was "very good news" and would be warmly welcomed by the Government.

However, he refused to be drawn on whether the Government would make a financial contribution to any scheme, despite considerable pressure from some of its own MPs for action. "There may well be ways in which we can help, ways other than financial help, to make it more successful," Mr Maude said.

He reiterated that the Government's saw no justification for using taxpayers' money to compensate a specific group and that the report by Sir Godfray Le Quesne into the Barlow Clowes collapse did not lead the Department of Trade and Industry to accept a moral or legal responsibility to compensate investors' losses.

Mr Maude's comments on BBC radio follow a public statement on Friday by Lord Young, Trade and Industry Secretary, that he would "certainly be interested" in a lifeboat scheme.

Lord Young gave the same message to a stormy private meeting of Tory backbenchers at Westminster after the publication of the Le Quesne report.

Mr Nicholas Winterton, one of the Tory backbenchers pressing for government action to help the investors, said yesterday that Lord Young's comments indicated that the DTI would "give consideration with a view perhaps to making a contribution" to any lifeboat scheme. If this were well-organised and soundly backed, the DTI would have a moral responsibility to make a contribution, he said. Mr Winterton admitted, however, that there was only a "glimmer" of moves towards such a scheme.

Freezing of child benefit likely to anger MPs

By Charles Hodgson

THE Government will come under renewed attack from the Opposition and its own Conservative backbench MPs this week over its plans for child benefit, following widespread speculation that the payment will be frozen at present levels for the second successive year.

Mr John Moore, Social Services Secretary, is understood to have dropped the idea of uprating child benefit in line with inflation, in favour of developing the system of family credits aimed at low-income families with children.

Child benefit is a weekly, flat rate payment made to mothers for each child, irrespective of family income.

Mr Moore is one of the few ministers still negotiating his departmental budget for next year with Mr John Major, Chief Secretary to the Treasury, and he is understood to be pressing for an increase in funding for family credits, introduced in last April's review of social security benefits. Agreement is expected this week and will be followed by an announcement on new benefit levels in advance of Mr Nigel Lawson's autumn statement on Government spending next month.

The issue will be raised by the Opposition during the House of Commons debate on the economy tomorrow. Mr Gordon Brown, Labour's Treasury spokesman, who will be leading the assault on the Government's economic strategy, said last night that Labour would "highlight the grotesque unfairness of freezing child benefits and cutting public services while maintaining top-rate tax cuts."

Some Conservative backbenchers also warned that they would find "unacceptable" any decision to freeze child benefit. Mr Robert McCrindle, a leading Conservative campaigner for the benefit, said that such a move would be a "considerable setback." The Government already faces considerable backbench unease over plans to introduce charges for National Health Service eye tests and dental check-ups.

Mr Moore gave a clear indication of his intention to develop specific welfare payments at the expense of universal benefits in a speech in Penrith on Friday. He said that the Government would "design and maintain benefits that give real help to the groups that society has said it wants to help: low-income families with children, disabled people, pensioners."

Child benefit is now fixed at a weekly rate of £7.25 per child and costs £4.5bn a year. An increase next year in line with inflation would have cost an additional £130m.

Mr Neil Kinnock, the opposition Labour leader, said that a freeze on child benefits next year, the fourth time since 1979 that the payment has been frozen or not fully uprated for inflation, was a sign of "penny pinching meanness," and the "alibi" of directing family credit toward the most needy was "a pretence."

Electricians' leader hits out at TUC over trade union rights

By John Gapper, Labour Staff

MR ERIC HAMMOND, general secretary of the EETPU electricians' union, yesterday attacked Mrs Margaret Thatcher's Conservative Government for "standing shoulder to shoulder" with the Trades Union Congress in denying individuals the right to choose their own trade union.

In a speech to the annual conference of EESA, his union's non-manual section, Mr Hammond drew a parallel between the Government's withdrawal of union rights at the GCHQ secret communications centre, and the TUC's expulsion of the EETPU last month. Both bodies were, he said, "prepared to use the heaviest sanctions to secure their diktat."

The union is nevertheless supporting the TUC-backed day of action on November 7, in protest at the dismissal of union members at GCHQ, when Mr Hammond warned there could be power cuts.

His speech followed an earlier claim at the conference that the EETPU was about to gain 12,000 new members from mergers with seven small staff associations in a variety of sectors – including one currently affiliated to the TUC.

The estimate was made by Mr Roy Sanderson, EESA general secretary. He told the conference in Liverpool that the mergers would "open doors" to recruitment in industries in which the EETPU had never before been represented.

Mr Peter Jones, secretary of the Council of Civil Service Unions, thanked the conference for the EETPU's support over the dismissal of four GCHQ staff. He believed that the Government had acted because it believed that the EETPU would not take action.

The EETPU is to recommend its 40,000 members in the electricity supply industry to take strike action on November 7 in support of 18 union members at GCHQ. Civil service unions are also balloting members on action.

Mr Sanderson said the EETPU was having discussions on amalgamation with the Deep Sea Divers Association. It was also talking to associations in the fields of defence, education, the fire services, social services, textiles, and journalism.

Mr Sanderson said that the EETPU was also trying to recruit 60 non-TUC staff associations to the Confederation of Managerial and Professional Staffs, an umbrella body set up by the union for those who did not want a full merger.

Midland to lengthen retail bank hours

By Michael Smith

MIDLAND Bank, one of the big four British clearing banks, has reached a deal with its two staff unions which clears the way for an increase in the number of Midland branches which open outside the UK's normally restricted retail banking hours.

The deal, covering compensation to staff for providing an extended service to customers, comes as Lloyds, another of the big four, has run into conflict with its staff unions over a decision to keep branches open until 4.30pm rather than 3.30pm.

Midland's agreement with the Banking, Insurance and Finance Union and the MSF general technical union covers payments for overtime and working on Saturdays in 350 branches which the bank intends next year to keep open until 5pm.

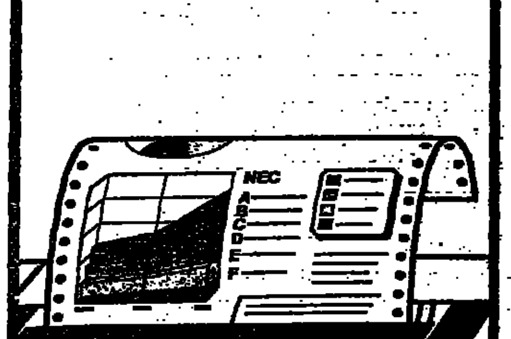
The Lloyds Bank Group Staff Union and Bifu have imposed an overtime ban in protest at Lloyds' introduction of extended opening hours without consultation.

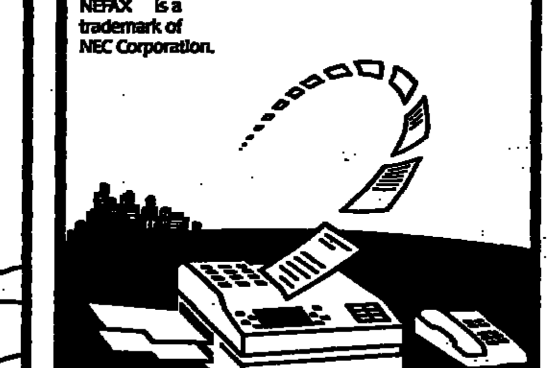
The Midland agreement provides for a reduction in the qualifying period for overtime from 30 minutes to a quarter of an hour. One of the areas of dispute with Lloyds is its qualifying time of half an hour.

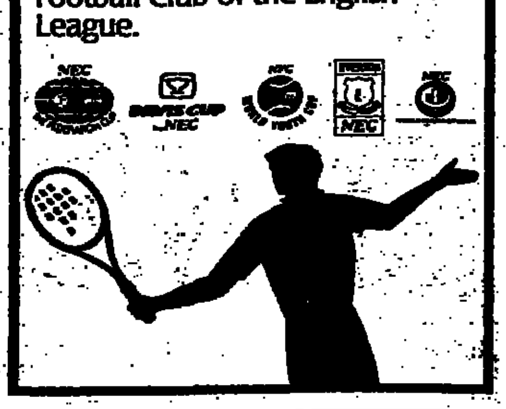
On Saturdays, Midland will pay an extra 50p an hour to staff so that full-day rate will vary between £36.50 for receptionists to £52.50 for supervisors. Staff will be given a day off in lieu for working Saturdays, and additional staff will be provided to cover on an agreed ratio basis.

Bifu estimates that the extension of hours and the agreement should together create an extra 500 jobs in Midland's network of 2,000 branches. About 80 branches have been taking part in a pilot scheme on extended opening hours.

The unions are to join the bank in encouraging staff to adopt flexible starting times of work as a way of minimising the need for overtime. The new agreement will come into effect from November 1.







UK NEWS

Defence research sites to merge into single agency

By Lynton McLain

THE GOVERNMENT is set to merge its six defence research establishments into a single Defence Research Agency with powers for the first time to make a profit and to raise capital on the commercial market.

The agency is likely to be able to set salaries for the 15,000 people employed by the establishments independently of Civil Service pay rates.

It is likely to be given a capital structure for the first time and be expected to meet performance targets and file annual reports. It will be able to keep the revenue and profits from commercial work, instead of giving it to the Treasury.

The defence research establishments are some of the biggest and most secretive government operations to be considered for a change to commercial agency status.

They include the Admiralty Research Establishment, the Royal Aerospace Establishment, the Royal Armament Research and Development Establishment, the Royal Signals and Radar Establishment, the Chemical Defence Establishment and the Aeroplane and Armament Experimental Establishment.

Duplication of facilities in the establishments is expected to be eliminated under single agency status, possibly putting some jobs at risk.

The agency is also likely to be free to dispose of surplus land.

The Ministry of Defence said last week that it was about to discuss the options for the future of defence research with unions in the scientific Civil Service.

The ministry is sensitive about the possible reaction to any change in the status of the defence research establishments in the light of the continuing hostile reaction by the unions to the privatisation of Royal Ordnance.

Mr Geoffery Pope, director of the Royal Aerospace Establishment, said last week: "The aim is to make all the defence research and development establishments into a single agency."

The agency is the likely outcome of studies by the Ministry of Defence into options for the future of the research establishments. The options are contained in a report prepared by an MoD team for the Controller Establishments Research and Nuclear. Final decisions are expected to be made by the end of the year.

The aim is to make the research bases more commercial and to distance them from Civil Service constraints. That is in line with the Government's response to the recommendations of the Ibbs report on Whitehall efficiency.

Options range from putting an "agency" label on the establishments to full privatisation.

No option has been rejected but the MoD is understood to *favour retention of the defence* research capability in the public sector.

Labour to consider balloting changes

By Charles Hodgson

LABOUR'S National Executive Committee is this week expected to approve in principle plans for a move to one member one vote balloting in constituency parties for party elections as the first step towards overhauling internal party democracy.

A resolution calling for one member one vote elections for the party leadership was approved at the party's annual conference earlier this month. It is aimed at reducing the influence of left-wing activists in constituency parties and giving more power to ordinary members.

The NEC is likely to ask its organisation subcommittee to look at the rule change and the possibility of extending one member voting to other areas, including the election of constituency members of the NEC and in the area of general policy issues.

The move comes amid signs of growing support among MPs and trade union leaders for a gradual reduction in the weight of the union block vote in party decision-making as the move to democratise the constituency parties proceeds.

Mr Robin Cook, Labour's health spokesman and an NEC member, said yesterday that the present weight of the block vote, amounting to more than 90 per cent of the conference total, could hamper the party's drive for mass membership.

"There's no doubt that there is a very serious problem in membership of the Labour Party when you find out that votes in the party conference are stacked in a way that gives the members of the party less than 10 per cent of the voting strength," Mr Cook said.

Speaking on BBC Television's On the Record programme, Mr Cook added that many union leaders supported the move, which he stressed should not be seen as a weakening of links between Labour and the union movement.

French join British Telecom in bid for mobile phone service

By Hugo Dixon and Terry Dodsworth

FRANCE TELECOM has joined British Telecom in its bid to operate a new type of low-cost mobile phone service, Telepoint, in the UK next year.

The alliance opens up the possibility that BT may in turn be invited to join France Telecom when telepoint services begin in France. BT has made clear in the past that it has ambitions to offer mobile telecommunications services across Europe.

The intense competition for the choice of operating companies to run the UK's system has resulted in 11 applicants for the two to four licences to be granted by the Government.

The bidding underlines the high interest that has built up in mobile communications over the past two years behind the rapid expansion of the cellular car phone industry.

BT announced earlier this month that it was applying for a telepoint licence as the majority partner in a joint venture with STC, the UK information technology group, NYNEX, the US telecommunications company covering the New York area, and an unnamed European organisation. France Telecom is that unnamed organisation.

The new generation of cordless phones is expected to provide a cheap alternative to cellular systems, based on a network of radio base stations around the country in conspicuous public places. Subscribers will be able link into the public telephone system via a radio connection from small mobile handsets to the base stations. British companies have high hopes of earning revenue by exporting both the phones themselves and the service.

Various estimates have been aired for the potential of this market, and some industry executives have argued that Britain will only be able to support two viable companies.

BT is only one of many companies bidding for the two to four telepoint licences on offer in the UK. Its application has come in for heavy criticism by some competitors, particularly Ferranti, the UK electronics group, on the grounds that it would dominate the market.

It was in response to this criticism that BT decided to apply for a licence as part of a consortium. BT approached STC only a few weeks ago.

Most of the bidding companies have made their intentions clear over the past few weeks, *but the final list* produced by the Department of Trade and Industry included two surprise applicants.

One of these, the Telepoint Retailers Consortium, is proposing to sell 50 per cent of the company to regional retailing companies.

This idea is being put up by Mr Martin Dawes, who runs the fourth largest service provider for the cellular mobile system, and Mr Daniel Nabarro, head of Inter City Paging.

The second is a group backed by Mr Michael Davis of the Cable Corporation, which runs the Windsor television cable scheme. This consortium includes the consulting arm of the Swedish telecommunications authority and Digital Mobile Communications, a leading paging company.

Advice on the merits of the bidders will be given to the Government by the Office of Telecommunications, the UK regulatory body, by the end of the year.

The other applicants are: Motorola of the US and Shaye, the UK group which has led in product development; Ferranti, one of the British 'pioneers'; Marconi, the GEC subsidiary; Mercury, which competes with BT; Millicom, the US specialist in cellular car telephones; Philips, which has joined Barclays Bank and Shell, which are both proposing their sites as base stations; the Plessey electronics group; and Racal, one of the two licensed cellular operators.

BR to sell Gold Star Holidays business

By Kevin Brown, Transport Correspondent

BRITISH RAILWAYS Board yesterday put its Gold Star Holidays business up for sale in a further move towards disposal of its non-rail activities.

The board said advertisements would appear in national newspapers today seeking inquiries by November 9. The sale will be by competitive tender.

Gold Star Holidays was launched in 1970 as Goldenrail and sells about 190,000 rail-based holidays a year.

The company has a turnover of about £10m and is believed to be profitable, although no figures are available because its accounts are merged into British Rail's passenger operations.

The sale is in line with the board's strategy of disposing of all but its core holdings – principally the operating divisions of British Rail and the profitable BR Property Board.

Other assets which are up for sale include British Rail Engineering (Brel), which makes and maintains rolling stock; Travellers Fare, the station catering subsidiary; and the scenic Settle to Carlisle line.

The Vale of Rheidol steam railway is in the process of being sold to the privately-owned Brecon Mountains Railway. British Transport Advertising has been sold to a management buy-out team.

In addition, part of the catering operation on InterCity trains has been contracted out to private companies such as Trust House Forte.

Newsprint plant plan studied

By Kevin Brown

REEDPACK, the paper and packaging group formerly owned by Reed International, is considering building a £200m newsprint plant in Aylesbury, Buckinghamshire, possibly through a joint venture with an overseas partner.

The Reedpack board is also believed to be looking at proposals for significant new casemaking (cardboard packaging) capacity in the UK and The Netherlands.

The proposals are in line with the strategy drawn up by Mr Peter Williams, Reedpack's chief executive, when the company was sold to its management for £608m earlier this year.

Mr Williams said existing capital expenditure commitments of about £300m would be carried through, in spite of a high level of debt incurred in financing the buy-out.

Peter Williams: Investment to proceed despite debt

The Buckinghamshire plant would produce 200,000 tonnes of newsprint a year from recycled waste paper – about three times Reedpack's existing capacity. Sales from the plant would be worth about £80m a year at current prices.

Reedpack says its paper operations are less affected by external cycles than some of its competitors because its paper is largely made from waste, making it less dependent on swings in pulp prices.

Under the expansion plans being considered by the board, Reedpack's casemaking capacity would be increased by about 80,000 tonnes a year in the UK and about 40,000 tonnes in The Netherlands.

The group recently announced plans to spend £12m at its corrugated case plant in Hartlepool, Cleveland, to increase capacity by 50 per cent. The investment was in response to increased demand.

Reedpack made pre-tax profits of £56.2m last year on sales of £708m.

Staff expansion planned at chip plant

By Terry Dodsworth, Industrial Editor

LSI Logic, the US semiconductor group, expects to create about 180 jobs this year at its Sidcup chip plant in Kent following the start of commercial production of its specialised semi-custom chips.

The Sidcup plant, taken over from the STC electronics group after it ran into financial problems in 1985, has been steadily stepping up output of its chips throughout the year. By the end of December it is expected to have about 200 employees on its payroll against just more than 20 in January.

Expansion of the plant is continuing with the investment of a further £7m by the end of this year, and next year the company aims to achieve a turnover rate of about $15m at the site. This compares with group sales which are more than $30m in Europe this year.

The establishment of a manufacturing operation in the UK is part of LSI's strategy for international growth based on production facilities in the three developed chip markets of the US, Europe and Japan.

Another new assembly plant at Brunswick in West Germany has been stepping up production this year, and the company has a parallel development for a high-volume semiconductor plant in Japan.

The growth in Europe may also revive plans for a flotation on the London Stock Exchange for the European operations.

LSI had plans for a public share issue related to the European businesses last year, but these were withdrawn for a mixture of reasons, including the fact that the company at that time was largely a sales organisation dependent on its California-based parent.

Harrods worker suspended

By Clare Pearson

AN EMPLOYEE of Harrods, the London department store, has been suspended for "treacherous contact" with business rival Lonrho, the international trading group whose chief executive Mr "Tiny" Rowland has opposed Harrods' ownership by the Al Fayed brothers.

It was discovered recently that there were contacts between Mr Denis Meehan, chairman of the store's staff council, and Lonrho at least since the start of the year, Harrods said yesterday.

Harrods will decide on Friday whether Mr Meehan, who is suspended on full pay, will be dismissed.

The affair marks a further twist in the wrangle between Mr Rowland and the Al Fayeds, who defeated Lonrho's bid for Harrods' parent, House of Fraser Holdings, in 1985.

Dan-Air launches Paris business route battle

By Michael Donne, Aerospace Correspondent

A BATTLE for business travellers on the busy London-Paris air route started yesterday when Dan-Air launched its scheduled flights between Gatwick and Charles de Gaulle airports.

It took the place of British Airways, which had been operating the original British Caledonian flights on that route since BA acquired BCal earlier this year.

One of the conditions of that takeover was that the Paris route, along with several other UK domestic and international operations, would be reallocated to other airlines.

In the ensuing route-licensing battle, Dan-Air won not only the Paris service but also the Gatwick-Nice, Gatwick-Manchester and Manchester-Aberdeen scheduled services. These other services also started at the weekend.

On the Paris route, Dan-Air will compete directly out of Gatwick with Air Europe, while British Airways will be the competition out of Heathrow, and Air France out of Gatwick, Heathrow, Stansted and the City Airport in London's Docklands (from the latter in association with Brymon Airways).

Dan-Air will be flying six return trips daily (five on Sundays), using British Aerospace One-Eleven Series 500 jets, and offering its new Class Elite business service.

The business fare will be £98 single. BA and Air France currently charge £95 single but this will rise to £108 from November 1. Dan-Air's cheapest rate will be £55 Apex return.

Air Europe already flies the Gatwick-Paris route but is introducing its own business-class service a week from today.

Using Boeing 737-300s with five return flights daily, and a £92 single business fare (with a cheapest rate of £59 Apex return), Air Europe will offer a special business cabin.

From today, the airline will also offer this improved business-class service on its Gatwick-Brussels flights. It will operate four return services a day and offer an £89 single fare.

Mr Graham Hutchinson, managing director of Dan-Air, said yesterday that it would spend about £5m during the next two years on developing its network of European scheduled services.

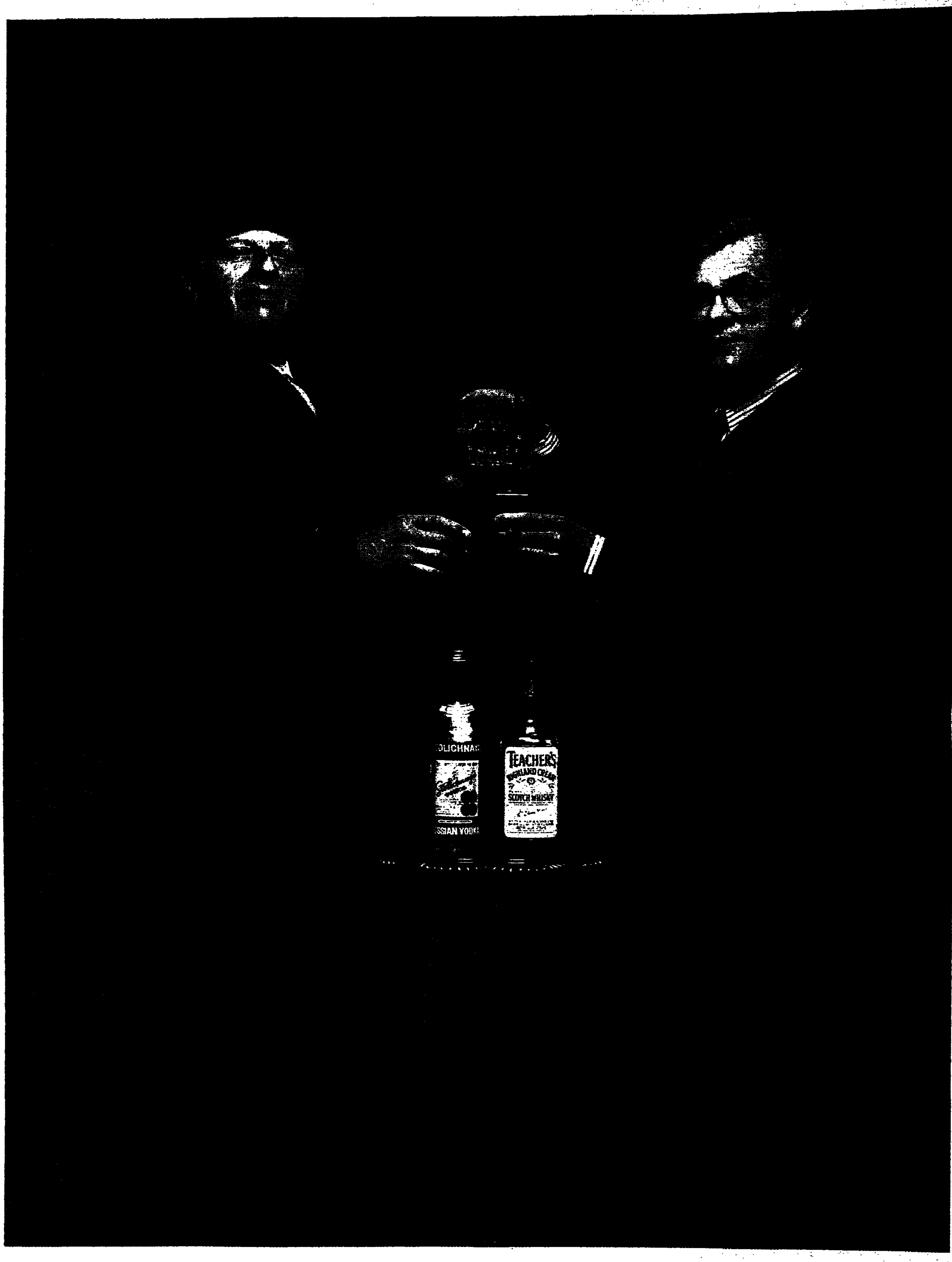
US computer group selects Scottish site

By James Buxton

SUN MICROSYSTEMS, the fast-growing, California-based data processing equipment manufacturer, is expected to announce soon that it will establish a plant in Scotland.

Sun Microsystems, founded in 1982, is one of the world's top makers of computer workstations, sophisticated desk-top computers used to manipulate figures and graphics.

Its decision to choose Scotland is regarded as a coup for Locate in Scotland, the inward investment agency run by the Scottish Development Agency and the Scottish Office.


TEACHER'S

Pension funds 'expect fall in contributions'

By Barry Riley

LARGE BRITISH occupational pension funds expect contributions received during this calendar year to fall by 17 per cent compared with 1987.

Net cash flow will swing from balance to a significantly negative figure this year because benefit payments and other distributions are expected to increase by 2½ per cent.

Many are overfunded, in spite of last year's stock market crash; some are having contributions holidays and others are reducing rates for contributors.

These findings have emerged from a survey covering 222 large (£50m-plus) UK pension funds by Greenwich Associates, the US-based consultancy. These formed a sample of a total universe of 350 corporate and local authority funds. The interviews were conducted last spring.

The 350 funds have total assets of £155bn. With contributions for 1988 of £4.9bn and outgoings of £6bn, the negative cash flow for these funds is put at £1.1bn. Nevertheless, assets are expected to increase by 31 per cent during the next three years, reaching some £205bn by the end of 1991 due to income on investments and expected capital gains.

According to the survey, 91 per cent of funds use external investment managers at least to some extent and 54 per cent use external managers only. Just 6 per cent are completely managed in-house.

Difficulty in recruiting skilled investment managers is given as the main reason for the low in-house proportion.

The rate of hiring of external managers has been increasing. As many as 23 per cent of the funds hired a new manager during 1987.

This may reflect the trend towards multiple external managers. More than 60 per cent of the funds employed three or more managers in 1987, compared with 47 per cent the previous year.

Significant numbers of the funds are planning to adopt more varied investment techniques.

During the next 12 months, 18 per cent expect to start using options and futures (26 per cent do already) and 14 per cent will commence investing in index funds (19 per cent do now). A quarter of the funds are firmly opposed to the use of futures and options.

The funds were asked about their response to new personal pension legislation which has allowed employees to opt out of occupational schemes and set up their own personal pension plans.

Measures to encourage employees to remain have been implemented by 81 per cent of the schemes. Many have sought to achieve this through educational programmes.

Only 11 per cent have not discouraged employees from leaving the scheme. On average, the schemes expect that in practice about 3 per cent of members will leave.

UK Corporate Finance and Pensions 1988. Greenwich Associates, Office Park Eight, Greenwich, CT 06830, USA.

Channel tunnel link rejected by CEGB

By David Green

THE CENTRAL Electricity Generating Board has discounted the possibility of using the Channel tunnel to accommodate a new 2,000MW power link with France.

The board has held talks with Eurotunnel but the idea has been rejected because of problems finding space for cables and carrying out maintenance and repair work.

The disclosure that the CEGB had investigated using the tunnel came during the third week of the public inquiry into plans to build Britain's second pressurised water reactor nuclear power station at Hinkley Point, Somerset.

Objectors to the station have suggested that increased electricity demand in the UK could be met partly by laying a new power link for further imports of French electricity.

The board is considering several possible routes for a second under-sea link but says there is no likelihood of it going ahead in the foreseeable future. The first link was opened two years ago and is regularly used to import about 1,500MW of French electricity.

Mr Sam Goddard, corporate director of the CEGB's System Planning Department, told the Hinkley inquiry that ideas of accommodating cables on the tunnel's walls and on the section underneath the rail tracks had been considered.

He said it would have been necessary, depending on the location of the cables, for one of the two rail tracks or the service tunnel to be closed during the repair of faults.

There was also a problem of high temperatures likely to arise in the tunnel, said Mr Goddard. This would be from an accumulation of heat from the trains and their own electricity supply, and heat associated with power losses from the board's cables.

Mr Goddard said he could recall calculations producing some uncomfortably high-temperature figures.

Mr Frank Jenkin, corporate director of the CEGB's Strategic Studies Department, said British companies talking to the board's equivalent, Electricité de France, about a new cross-Channel link might not find the idea so attractive when it came to signing contracts.

This was because the price of electricity would not only reflect the cost of establishing a new link, but also of the French having to guarantee a supply over a set period.

The companies, which include British Steel, see scope for direct purchase of French electricity after the UK Government goes ahead with its plans to privatise the electricity supply industry.

The inquiry resumes tomorrow.

Christopher Price: Taking over amid some confusion

Unit Trust Ombudsman starts work

By Eric Short

MR CHRISTOPHER PRICE today takes up his duties as the Unit Trust Ombudsman – a post created within the ambit of the Insurance Ombudsman Bureau.

The aim of the Unit Trust Ombudsman is to provide a complaints service for aggrieved unitholders within the financial services regulatory framework, unit trusts being classified as investments.

However, Mr Price takes over under conditions of considerable confusion.

The financial services legislation requires regulating bodies to set up services to handle complaints from investors, although the policy of the Securities and Investments Board has been to build on existing complaint systems.

Unit trust management groups are authorised by the Investment Managers' Regulatory Organisation (Imro). This has its own complaints procedure headed by a "referee" – a designation it prefers to Ombudsman – although it is still in the process of finding a suitable candidate.

Unit trust management groups would be covered by the Imro referee scheme unless they opted to join the Unit Trust Ombudsman scheme.

Confusion arises, however, because the schemes are not compatible.

The Imro referee has far wider terms of reference than the Unit Trust Ombudsman. The referee can deal with almost any cause of complaint, but the ombudsman cannot handle complaints relating to unit trust pricing or investment.

The difference is not surprising. The Imro referee has to be able to deal with a whole range of investment managers who are Imro members. Terms for the Unit Trust Ombudsman were drawn up after consultation with the industry.

So the Unit Trust Ombudsman is far more restricted in his complaints handling, thereby favouring the management groups. However, to date only 36 groups out of about 150 have joined the scheme.

The other consideration is cost. Management groups have to finance the Unit Trust Ombudsman scheme directly in addition to their Imro fees. The referee service is included in the Imro fee.

Both sides are still negotiating to reach a compatible service.

Electricity price 'in mid-range of world charges'

By Maurice Samuelson

UK ELECTRICITY prices are internationally competitive in spite of this year's increases, according to a report published today by the Electricity Council, the industry's umbrella body.

The survey, carried out annually with the aid of 40 utilities in 20 countries, shows that prices for typical UK domestic and general industrial customers, which have increased by about 9 per cent in the past year, remain in the middle of the range of prices in the developed world in general and the European Community in particular.

Prices in West Germany and Japan were among the highest because of several factors. In West Germany, prices reflected the cost of installing anti-pollution equipment and protecting the local coal industry. Japanese utilities also incurred relatively high primary energy costs.

The survey said householders in England and Wales pay an average 6.81p a kilowatt hour, less than in any of the 11 other EC countries except the Netherlands and Greece.

Industrial tariffs in England and Wales, at 4.20p a kwh, were the sixth dearest in the Community. West German tariffs, at 6.23p a kwh, were the most expensive; Denmark's at 2.38p a kwh were the cheapest.

Mr John Marsh, the Electricity Council's head of tariff application, said the UK's competitive position had been eroded by the appreciation of sterling over the past year but its prices remained in the mid-range.

The gas industry's burning issue

Max Wilkinson on the implications of a Monopolies and Mergers Commission report

THE OIL companies have not welcomed the Monopolies and Mergers Commission report last week on the UK industrial market even though it was intended to give them extra weapons to compete with their old adversary, British Gas.

Mr John Ogren, chairman of the UK subsidiary of Conoco, the Delaware oil company, said the attempt to dislodge British Gas from its position as sole purchaser of North Sea gas was "ill-conceived and unnecessary." The private reactions of other large North Sea operators have ranged from puzzlement to alarm.

Even the Government seems as yet uncertain how the commission's recommendations can be implemented, so it is clear that intense negotiations about the intricacies of North Sea gas field development have yet to take place.

The commission said in its 138-page report, entitled simply Gas, that North Sea producers should be allowed to sell only 90 per cent of the output of any new fields to British Gas. The remainder, it is envisaged, would be sold direct to large industrial customers or to a broker.

To facilitate these sales, the commission proposed measures to weaken British Gas's grip on the industrial gas market.

It will be forced to stick to a published schedule of prices. It will also be required to sell cheaper "interruptible" supplies to any customer.

The object is to give potential competitors a clear target to aim at while preventing British Gas from using its monopoly position to undercut competitors one by one.

In these conditions, one might expect quite a lucrative market to open up for oil companies selling direct from North Sea fields to industrial and commercial companies. Prices paid by British Gas are now about 15p per therm and could be as low as 13p.

Yet 60 per cent of its 18,000 industrial and commercial customers who have guaranteed supplies are paying its maximum price of 34.4p per therm.

Since British Gas will not be allowed to charge over the odds for use of its transmission lines (say 4p to 6p per therm), it looks as if oil companies could make quite a bit of extra money by selling gas direct.

But with the exception of BP's deal to sell gas from its Miller field direct to a Scottish power station, they have not been doing so. Why not?

First, there was the convenience of an arrangement which left British Gas with all the bother of marketing and distribution. Also, oil companies have been reluctant to offend British Gas, whose contracts effectively decide the order in which new gas fields will be developed.

The desire to keep on the right side of the corporation has strengthened recently with the perception of a substantial surplus of gas in the UK sector of the North Sea waiting to be developed in the mid-1990s. According to industry estimates, this surplus could amount to about 1bn cubic ft per day, or almost a fifth of present consumption. So the oil companies are jostling to get their projects on line first.

Although this has resulted in hard bargaining on price, British Gas and its major suppliers have shared a cosy perception that the monopoly in the industrial market is good for all. It has meant, in effect, that prices for the industry as a whole have been higher than they would have been if the industrial market had been open to competition.

British Gas has seen that one way to keep oil companies out of its market would be to offer more favourable terms in the North Sea, while simultaneously threatening to buy imports from Norway. North Sea gas producers, for their part, do not want to drive prices so high that they lose their market to other fuels. Nor do they wish to follow the example of the US gas industry, where surplus supplies and vigorous competition have driven wholesale prices to extremely low levels.

It is not surprising, therefore, that oil companies are unhappy with the 10 per cent rule which will force them to compete with British Gas. They argue that the economics of North Sea development will be worsened if they can only guarantee selling the output of 90 per cent of the field.

They may perhaps be right, that somewhat higher risks would justify a small increase in North Sea prices to British Gas.

But that would mean they could sell the remaining 10 per cent quite cheaply to industrial customers or to brokers who are already preparing for the early 1990s when free market gas will become available.

A small field with potential output of 25m to 50m therms per year might be able to supply direct to one of the 20 or so sites which use more than 25m therms per year.

As there are some 70 sites using more than 10m therms per year and 150 using more than 5m therms per year, it should be relatively easy for a broker to match a group of large customers with the complete or partial output of a number of fields. This would be good news for medium to large-size gas users and bad for British Gas's profits.

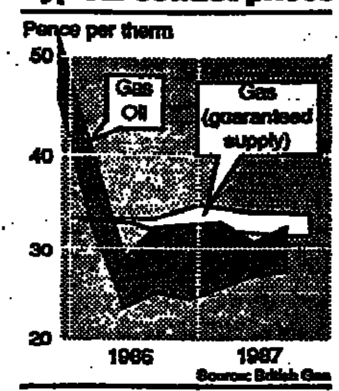
However, many important details remain to be discussed between the oil companies, the Department of Energy and the Office of Fair Trading. For example, can the 10 per cent tranche come at the beginning, middle or end of a field's life? Or must it be applied pro rata to British Gas's off-take?

This is important because oil companies often change their estimate of how much gas they can recover from a particular field. Hitherto British Gas has agreed to buy the whole contents of a field whatever it proves to be. What flexibility will oil companies be given to sell, say all of one field into the market, then the whole of the next to British Gas? And how strict will be the rules about British Gas buying back unwanted 10 per cent tranches?

The toughness of the authorities in answering these questions will determine to a large extent whether the commission's vision of a competitive market in gas becomes a reality or is smothered under the small print.

Gas: MMC report from HMSO. £10.30

Typical cotract prices



The graph, taken from the MMC report on gas, shows the band of typical prices in the industrial market for gas (with supplies guaranteed) against typical contract prices for gas oil, the main competing fuel.

Big deficit on trade 'to remain into the 1990s'

By Ralph Atkins, Economics Staff

BRITAIN'S TRADE deficit will remain big well into the 1990s, says a leading forecasting group in a report today.

Ernst & Whinney Independent Treasury Economic Model (Item) club predicts the current account will be in deficit by £13.4bn this year. It is then expected to remain above £13bn in every year until at least 1992.

The forecast suggests Mr Nigel Lawson, Chancellor of the Exchequer, was too optimistic even when he said last week that it may not be until 1990 that Britain sees a substantial improvement in the current account.

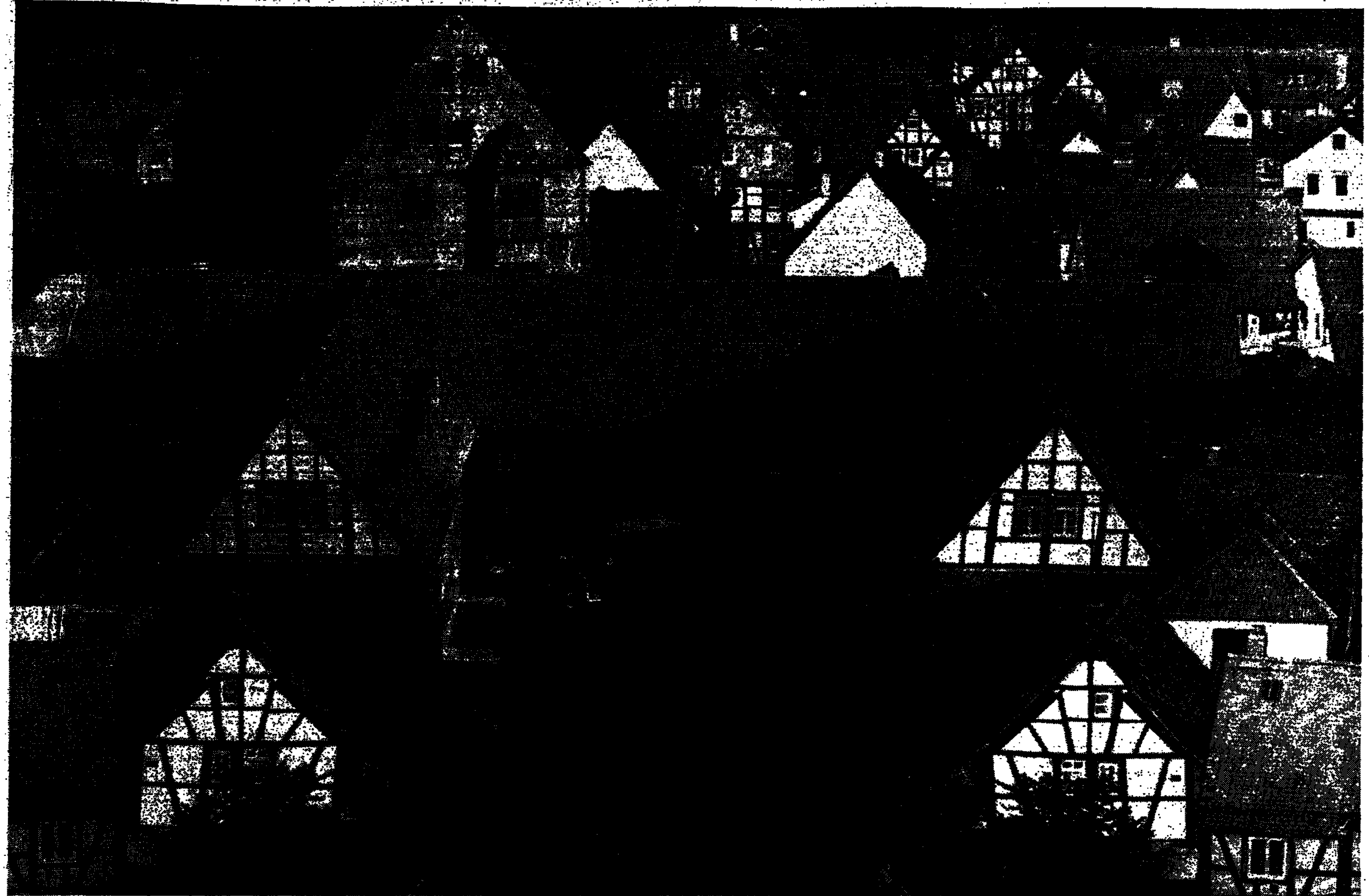
The Item club, a group of economists who use the Treasury's model of the economy to draw up independent forecasts, suggests Mr Lawson is right to say inflation will peak next year. It predicts a high point of almost 7 per cent early in 1989 and a slowdown to 5 per cent by the end of next year.

However, it implies the Government's policy of using interest rates to control inflation will have only limited results.

Inflation is forecast to fall below 4 per cent only in the last three months of 1990, bringing it in line with the average 1987 rate.

It says: "It is difficult to see them achieving this earlier since interest rates are an extraordinarily blunt instrument for cutting back retail price inflation.

"In fact it is almost more effective to reduce interest rates in order to lower the retail price index housing cost component."



NOTICE OF ADJOURNED MEETING

of the holders of

Landesbank Schleswig-Holstein Girozentrale

A$50,000,000 13⅞ per cent. Notes due 1990

NOTICE IS HEREBY GIVEN that a Meeting of the holders (the "Noteholders") of the above-mentioned Notes (the "Notes") convened by Landesbank Schleswig-Holstein Girozentrale (the "Bank") for 12 noon (London time) on 18th October, 1988 by the Notice dated 23rd September, 1988 published in the Financial Times and the Luxembourger Wort was adjourned through lack of quorum, and that the adjourned Meeting of the Noteholders convened by the Bank will be held at 3.15 pm (London time) on 4th November, 1988 at the offices of The Royal Bank of Canada, 71 Queen Victoria Street, London EC4V 4DE for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 11th September, 1987 made between the Bank and Kredietbank S.A. Luxembourgeoise (the "Fiscal Agent") and others relating to the Notes.

EXTRAORDINARY RESOLUTION

"THAT this Meeting of the holders (the "Noteholders") of the A$50,000,000 13⅞ per cent. Notes due 1990 (the "Notes") of Landesbank Schleswig-Holstein Girozentrale (the "Bank") issued under a Fiscal Agency Agreement (the "Fiscal Agency Agreement") dated 11th September, 1987 made between the Bank and Kredietbank S.A. Luxembourgeoise as Fiscal Agent (the "Fiscal Agent") and others hereby:-

(1) assents to the modification of the Terms and Conditions of the Notes (as printed on the reverse thereof and in Schedule B to the Fiscal Agency Agreement) proposed in paragraph (b) of the Explanatory Statement issued by the Bank and dated 23rd September, 1988, a copy of which has been produced to this Meeting and initialled by the Chairman hereof and by or on behalf of the Bank for the purpose of identification;

(2) sanctions every modification, abrogation, variation, compromise of, or arrangement in respect of, the rights of the Noteholders and the holders of the Coupons appertaining to the Notes against the Bank involved in, or resulting from, the modification referred to in paragraph (1) of this Resolution or any substitution of debtor made pursuant to, and in accordance with, the Terms and Conditions of the Notes as so modified; and

(3) authorises the execution of a Supplemental Fiscal Agency Agreement in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman hereof to give effect to the modification referred to in paragraph (1) of this Resolution."

The attention of Noteholders is particularly drawn to the quorum required for the adjourned Meeting which is set out below.

QUORUM

The quorum required to consider the Extraordinary Resolution at the adjourned Meeting will be two or more persons present in person holding one or more Notes or voting certificates or being a proxy or proxies whatever the principal amount of the Notes so held or represented by them.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement may be inspected, and copies of the Explanatory Statement, voting certificates and other relevant documents may be obtained, by Noteholders from the specified office of any of the Agents given below.

FISCAL AGENT

Kredietbank S.A. Luxembourgeoise,
43 Boulevard Royal,
L-2955 Luxembourg

PAYING AGENTS

Kredietbank N.V.,
Arenbergstraat 7,
B-1000 Brussels

ANZ Merchant Bank Limited,
65 Holborn Viaduct,
London EC1A 2EU

This Notice has been approved by an authorised person for the purposes of the Financial Services Act 1986.

CONSTRUCTION CONTRACTS

Guildford office complex

WILLETT, a Trafalgar House company, has been awarded a £17m contract to construct an office complex for Broadextra in Guildford, Surrey.

Located off London Road in the centre of Guildford, the project will involve the construction of three office buildings of varying sizes. The development consists of a four-storey "L" shaped block of 36,000 sq ft, a similar shaped three-storey block with 36,000 sq ft of accommodation and a three-storey square shaped building, incorporating a basement and glazed atrium of 54,000 sq ft.

All three structures will be constructed on reinforced concrete foundations with traditional brick elevations and tiled roofs.

The contract entails the installation of all internal finishings, including raised flooring throughout, fixing suspended ceilings, together with all electrical and air conditioning services. Completion is scheduled for spring 1990.

£34m motorway project

DOUGLAS CONSTRUCTION has received two major contracts, a £34m contract for a further section of the M40 and a £26m contract for the events arena and velodrome at Sheffield's Lower Don Valley Complex. The £34m contract covers the construction of the Gaydon Section of the M40. This new section adjoins Douglas' present M40 Warwick South contract now under construction. The section of motorway will also include a bridge over the River Avon. Work on the motorway is expected to start in the near future and will be completed in about two years.

Sheffield City Council has appointed the company as management contractors for the £26m main events arena and velodrome at the Lower Don Valley complex. This follows last month's award to Douglas of the £17.5m contract for the athletics stadium at the same site.

The velodrome will become a permanent training facility for our national cycling team, incorporating training programmes for professionals and amateurs alike. Although built to the British Cycle Federations specifications the 3,500 seat facility can be used for a variety of other spectator functions. The events hall will host the gymnastics, basketball and volleyball events for the Student Games but is also designed to host a multitude of other events with a seating capacity of up to 15,000 and a large floor designed for maximum flexibility in exhibition type functions.

The buildings will rest on a raised public plaza with ticketing facilities and main entrance projected under a cable supported fabric structure. The roof structure will be of long span, deep truss space frame design which will span to the perimeter of the building with no need of intermediate supports. This will facilitate the easy location and access of catwalks, lighting and sound systems.

Entertaining the masses

A major development in the entertainment industry takes a further step forward with the selection of JOHN MOWLEM & CO to build the multi-screen cinema complexes planned for the UK by Warner Brothers Theatres. The work is estimated to be worth in the region of £120m

The scheme is a determined effort by Warner to encourage the family back to the cinema-going habit and to increase considerably present-day audience figures. Each cinema complex, or "multiplex" , will have up to 12 separate air-conditioned auditoriums, luxurious seating and decor and the latest 70mm projection, stereo sound and lighting systems. Restaurants, shops, bars and well-lit car parking for up to 2,000 cars will complete the concept.

Construction work will involve three major divisions of the Mowlem group - Mowlem Building, Mowlem Northern and Mowlem Regional Construction. Work has begun on the first multiplex site in Bury, Manchester and will be followed shortly by other projects,

Felixstowe terminal extension

PETER BIRSE has won a contract worth £19m from the Port of Felixstowe for an extension to the Trinity terminal to provide an additional 25 acres of paved area.

The project includes a dredging operation of about 3.5m cu metres of which 1.7m cu metres is to be dumped at sea and the remaining 1.8m cu metres is to be used for reclamation to provide the additional area of land.

There is also 400 metres of sheet and tubular pile quay wall to be constructed.

The contract has commenced and has a 62-week completion period.

APPOINTMENTS

Board directors at Sun Life

■ *SUN LIFE ASSURANCE* SOCIETY has appointed the following directors to its board: Mr Jean Peyrelevade, chairman of the Union des Assurances de Paris, Mr Jacques-Henri Gougenheim, UAP International's managing *director*, *Lord Douro*, a member of the European Parliament, Mr Michael Rapp, deputy chairman of Capital and Counties, and Mr John Barkshire, chairman of the International Commodities Clearing House.

■ SUN ALLIANCE has revealed a series of management appointments to take effect on January 1. The appointments are primarily changes of title, with Mr Roger Neville, chief general manager, redesignated as group chief executive.

Mr Peter Quaile will become deputy group chief executive until his retirement on February 28. Mr Roger Taylor, currently general manager of Sun Alliance's UK non-life operations, and Mr Brian Wright, head of Sun Alliance Life, will become group executive directors.

■ Mr Joe Seet has joined the London office of SCOTIAMCLEOD as vice president, finance, Europe, in place of Mr Brian Sutton who has returned to the Toronto head office.

■ Mr Jock Green-Armitage has joined the board of ENGLISH AND SCOTTISH INVESTORS. He is chairman of Mezzanine Capital and Income Trust.

■ BRITISH LINEN FUND MANAGERS has appointed Mr Ewan Jeffrey and Mr Colin Kilpatrick directors.

Scottish leisure scheme

JT DESIGN BUILD of Bristol has been awarded contract awards amounting to £25m. Two of the largest contracts have been awarded by Country Club Hotels. The company is *finalising design*, for a *start in* the New Year, on an £8m hotel and leisure complex at Dalmahoy, Edinburgh.

A Grade I listed building is to be refurbished to house conference facilities and nine executive suites with new buildings to provide a further 108 bedrooms, restaurant and function suite together with a leisure club incorporating indoor pool and restaurant, squash courts, gym, jacuzzi, saunas and golf club for the two courses.

A similar contract for the same client has started near Derby where JT is refurbishing a priory building at Breadsall. New buildings will also provide 60 bedrooms overlooking the golf course and outbuildings will be transformed into a leisure club. Valued at £6m, the overall development is due for completion in 21 months.

Infrastructure and building contracts have been awarded by Sheraton Securities International for phase 1 of Bristol Business Park. The £2.9m initial infrastructure works are on a 72 acre site adjacent to the M32/M4/M5 interchange north of Bristol. The work consists of *roads*, *services* and *drainage* with *extensive landscaping* including lakes and fountains arranged around the main entry to the site. A £2.6m building contract is due to start on site in January and is being designed for multiple occupancy. Arranged in a series of linked single and two-storey pavilions, the 33,000 sq ft building will overhang one of the lakes currently under construction.

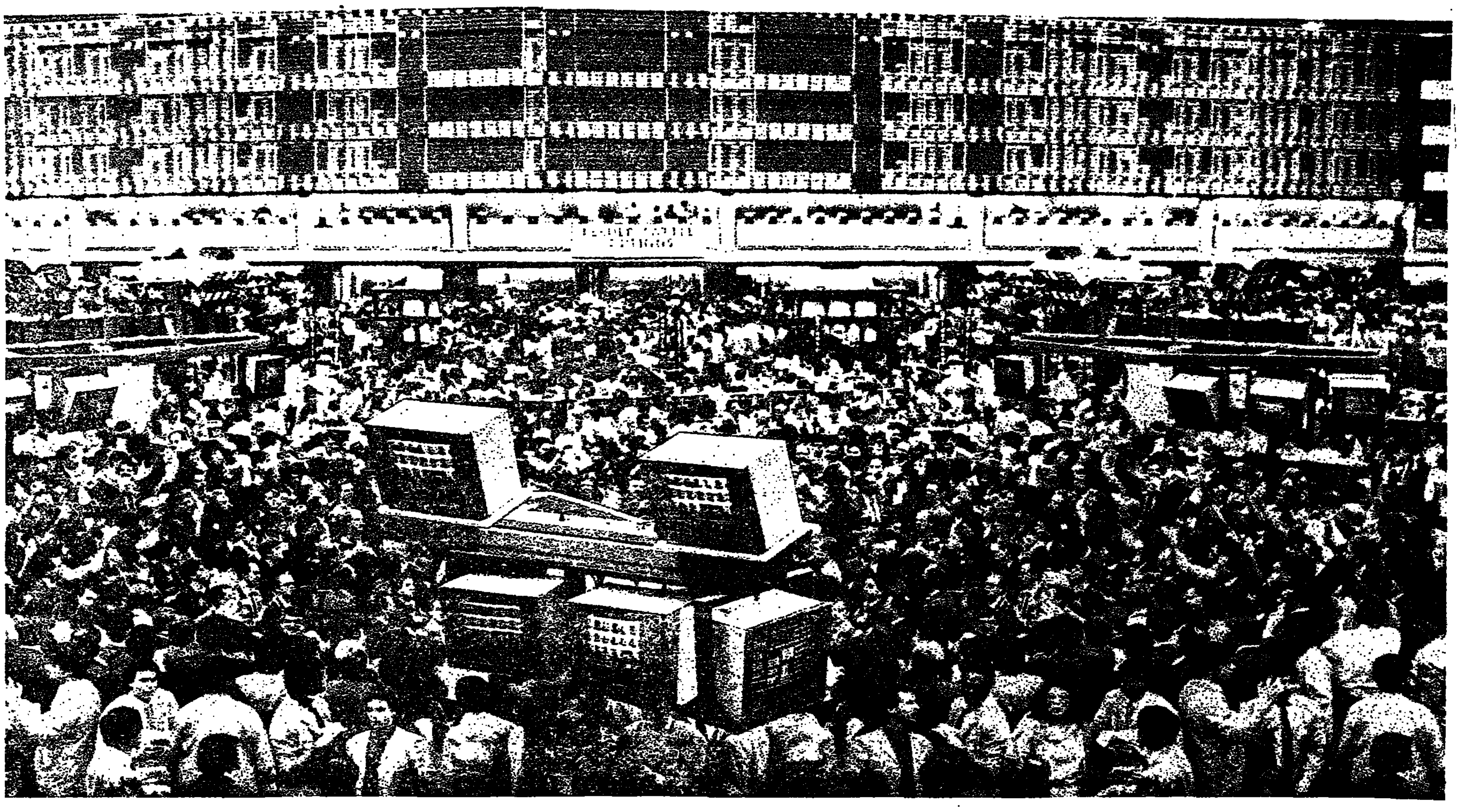
Subject to detailed planning consent, Tandridge District Council has awarded a £3.5m contract to design and build a leisure pool at Station Yard, Oxted. The 56-week contract is due to start in January and, when completed, will provide a comprehensive swimming complex. Included in the project is the leisure pool with wave machine, a 70 metre flume, water cannon, fountains and geyser, incorporating a four-lane 25 metre swimming area

Building leisure centre

TARMAC CONSTRUCTION has won an £11m contract to build a leisure centre planned for The Rank Organisation on the site of the former garden festival park in Stoke-on-Trent. Work will start immediately on the 23.5 acre development which is scheduled for completion by the end of next year.

Leisure attractions will include: An Odeon eight-screen cinema, a 10 pin bowling arena with 30 lanes, a Quicksilver amusement park, a pizzeria and pasta restaurant, a snack and refreshments bar, a Hot Shots 18 table snooker club, a 1990's ice cream parlour, a mini funfair and an indoor and outdoor Waterworld.

The festival park leisure centre is expected to create around 300 jobs and is expected to attract around two million visitors in its first year of operation.



LEGAL COLUMN

Solicitors face up to a recruitment crisis in all fields

By Raymond Hughes

SOLICITORS, whatever their other faults, are not generally given to dramatic statements or hyperbole. So when their governing body, the Law Society of England and Wales, speaks of a recruitment crisis in the profession it is reasonable to assume that there really is a problem.

Earlier this year the Law Society published a report which stated that although the number of solicitors holding practising certificates was rising by 1,500 to 2,000 a year, it was failing to keep pace with demand.

Firms throughout the country were said to be experiencing severe difficulties in recruiting qualified solicitors and the shortage, the report said, existed in all fields: local and national government, law centres, commerce and industry, as well as in private practice.

Figures are hard to come by, although Isobel Swanson, manager of the Law Society's Appointments Service, says she has some 2,000 vacancies on her books and only 150 applicants – numbers which, perhaps, justify the use of the word "crisis."

The great demand, she says, is for people with two or three years' experience and good people can more or less name their price. She acknowledges, however, that there is a considerable regional variation in salaries being offered in private practice to graduates aged 24 to 25 who have finished their articles – ranging from as little as £12,000 in Wales, to £16,000 in the English provinces and to £19,000 to £20,000 in City firms.

Michael Chambers of Chambers & Partners, legal recruitment consultants, agrees that there is a crisis but sees it as concentrated in the smaller private practices. The big City firms and industry are "recruiting like mad," he says.

Some indication of what the smaller firms are up against was given by a recent full-page advertisement in a legal magazine in which Allied Dunbar, a leading company in the financial services industry, announced that it would be head hunting on 11 university campuses during the next two months.

Jill Davie, Allied Dunbar's head of recruitment, says it is looking for law graduates with a first or upper-second degree, who would be offered about £12,000 as a starting salary. Within three to five years, however, a high performer could hope to be earning up to £20,000 plus a company car.

The irony is that the shortage comes at a time when the legal profession – 50,000 strong and with an average age of under 35 – offers, as was recently pointed out by Lawyer magazine, more opportunities than ever before, both domestically and, with the approach of 1992, in Europe.

Equally ironic is the fact that, only a few years ago, the recruitment crisis was precisely the opposite to what it is now. The worry then was that, in what was seen as a world of decreasing opportunities for solicitors as a result, for example, of the loss of their conveyancing monopoly, the profession was going to be oversubscribed.

> A significant number of law students said they were put off by the profession's image, which was characterised, notably by women, as pompous and pedantic.

Michael Chambers believes that at that time the Law Society got it wrong and blames the society for much of the current problem. He says that in the early 1980s it put a clamp on admissions to the profession and tightened up admissions requirements, with the result that when the economy started to boom and demand accelerated there were nowhere near enough newly-qualified solicitors to meet it.

Isobel Swanson does not accept these strictures. In 1980, she points out, the UK was in the middle of a depression, firms were not recruiting and the Law Society was having difficulty placing solicitors who had been made redundant.

Michael Chambers says that students are screaming to get into the law faculties but there are not enough places for them all. However, according to Gouldens, the City solicitor, which surveyed 2,000 undergraduates reading law, history or economics, only 40 per cent intended to join the legal profession, while 34 per cent of law students wanted an alternative career.

A significant number of law students said they were put off by the profession's image, which was characterised – notably by women – as pompous and pedantic. Many were discouraged by the prospect of further training while some felt that a solicitor's life was boring, monotonous or office-bound. Gouldens reported that a disturbingly large proportion, men and women, believed that they would leave the profession after qualifying.

The depth of the profession's current concern about the situation was demonstrated by the fact that the whole of one day at the Law Society's annual conference at Cardiff, which ended yesterday, was devoted to the problem of recruitment.

It included a career and recruitment fair, organised jointly with the Cardiff Law School, to which 1,000 or more students were bussed and left to the tender mercies of more than 50 exhibitors – large and small law firms, local law societies and the Crown Prosecution Service – which had set up their stalls in the National Sports Centre.

Insofar as it was possible to draw any conclusions from the somewhat unstructured conference session on recruitment, the main perceived reasons for the crisis were the falling birth rate, competition from other professions, a bias in favour of university graduates as against polytechnic students and school leavers, inequality of treatment of women solicitors and candidates from ethnic minorities and, money.

It was, however, money that loomed largest. Firms, it seems, are either unwilling – or, particularly in the case of those doing legal aid work, unable – to pay what it takes to compete successfully either with the big City solicitors or with other professions. The chairman of the 16,000-strong trainee solicitors group of the Law Society produced figures showing that the average starting salary of graduates entering accountancy is £8,740

By contrast the equivalent Law Society minima for trainee solicitors are £6,000 in the provinces, £6,900 in outer London and £7,200 in inner London.

After the conference session many of those taking part hurried off to the recruitment fair to make their pitch to the captive audience of students. It was noticeable that several City firms had thought it worth their while to set up stalls alongside their provincial colleagues. Among them was Linklaters & Paines, whose recruitment partner, David Lloyd, explained that, although City firms were a big attraction, the competition between them for the top graduates was "gentlemanly but intense."

However, the less fashionable provincial firms with smaller resources could take comfort from the results of a random survey of student ambitions, conducted by this column, which suggested that notwithstanding its salaries London is not seen as the most attractive place to work

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mh

DIARY DATES

Trade Fairs and Exhibitions: UK

Current
British International Motor Show (01-235 7000) (until October 30)
NEC, Birmingham

October 24-28
International Business Show (01-868 4499)
Earls Court

October 25-28
Building Exhibition - BUILDING (01-486 1951)
Earls Court

October 25-27
Fluid Handling Exhibition (01-680 7525)
Wembley Conference Centre

October 27-30
Home and Leisure Exhibition (0253 25252)
Winter Gardens, Blackpool

October 28-29
Cash & Carry Fashion Fair (01-727 1929)
Kensington Town Hall

November 1-3
Company Asset Leasing Exhibition and Conference (07072 75641)
Barbican

November 1-3
Northern Food and Drink Show (01-486 1951)
G-Mex Centre, Manchester

November 1-3
ITEX - The Information Technology Exchange Exhibition (01-940 6065)
Barbican

November 1-6
Kensington Antiques Fair (04868 22562)
Kensington Town Hall

November 3-6
London Money Show - MONEY (01-940 2244)
Olympia

November 8-10
World Trade Services (Freight & Export) Exhibition and Conference (01-727 1929)
NEC, Birmingham

November 8-10
Accountants and Banking International Exhibitions (01-749 9535)
Barbican

Overseas Exhibitions

Current
International Trade Fair SINTRA (01-834 5082) (until October 31)
Seoul

Current
International Electronics Show- INTRON (Dublin 900600) (until October 28)
Dublin

November 6-8
Lingerie and Hosiery Show (01-499 7291)
Paris

November 7-11
International Agribusiness Exhibition and Conference - AGCHINA (01-940 3777)
Beijing

November 8-12
International Technical Exhibition (including engineering, welding and chemical educational textiles) (01-486 1951)
Jakarta

November 9-12
International Home Furnishings and Appliance Show - JAPAN HOME SHOW (01-486 1951)
Tokyo

November 13-17
International Refrigeration, Ventilation, Air Conditioning and Heating Exhibition - REVAC (01-940 3777)
Jeddah

Business and management conferences

October 24
The Economist: 1992 The new Europe - Getting to grips with the competition (01-839 7400)
Park Lane Hotel, London W1

October 25
Leatherhead Food RA: Innovation in the food and drink industries (0372 376761)
Regents Park, London NW1

October 25-26
International Business Communications: Managing LDC debt (01-236 4080)
London Press Centre, EC4

October 31- November 1
Financial Times Conferences: Professional personal computers in the 1990's (01-925 2323)
Hotel Inter-Continental, London W1

November 2-4
The British Production and Inventory Control Society: Integration for success (0279 56695)
Metropole Hotel, Birmingham

November 7
Euromoney: International mergers and acquisitions (01-236 3288)
The Plaza Hotel, New York

November 7-8
Financial Times Conferences: The World outlook for mobile communications (01-925 2323)
Hotel Inter-Continental, London W1

November 7-8
The International Franchise Association: The elements of successful international franchising (01-630 7111)
Sheraton Hotel, Brussels

November 9
The Business Enterprise Unit: Europe 1992 - Meeting the challenge of the single market (0322 291782)
Albany Hotel, Nottingham

November 9-10
Taxbriefs: Life assurance and pensions conference (01-250 0967)
Royal Garden Hotel, London W8

November 10
International Herald Tribune: Mergers and acquisitions (01-379 4302)
Park Lane Hotel, London W1

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

FINANCIAL TIMES CONFERENCES

THE WORLD OUTLOOK FOR MOBILE COMMUNICATIONS
London, 7 & 8 November 1988

Mobile communications is one of the fastest growing sectors of the telecommunications market. This two-day conference will look at the rapid changes that are taking place and the many factors which affect the progress of mobile communications. It will also examine the practical implications that must be addressed by telecom enterprises as well as the range of opportunities now being opened up in both equipment and services. The speakers will include Robert Atkins, Parliamentary Under Secretary of State for Industry, Stephen Pascall, Commission of the European Communities, Koubei Nishino, Nippon Telegraph & Telephone Corporation, John Carrington, British Telecom Mobile Communications, Gerry Whent, Racal Telecommunications Group and Armin Silberhorn of the Deutsche Bundespost. Charles Coe, President of BellSouth International will look at developments in mobile communications in the US and Maurice Remy, Chairman and Managing Director of Matra will give a French perspective.

PRIVATE HEALTH CARE
London, 29 & 30 November, 1988

This conference will examine major issues facing the private health care sector in Britain including the importance of co-operation between the public and private sector, employee health care, new dimensions in health insurance and the care of the elderly. Speakers will include: David Mellor, Minister of State for Health; Robert Graham, BUPA; David Willetts, Centre for Policy Studies; Harriet Harman, Opposition Spokesperson on Health; Marvin Goldberg, AMI; John Chawner, BMA; Derry Andrews, Sun Alliance Health First; Peter Townsend, Bioplan Holdings; Paul Stacey, Nuffield Health Care; Ken Grant, City & Hackney District Health Authority and Professor Jan Blanpain, Chairman of the European Health Policy Forum. The conference will be chaired by William Laing of Laing & Buisson and Professor Alan Maynard, Director of the Centre for Health Economics.

EUROPEAN BUSINESS FORUM - 1992 AND AFTER
Rome, 1 & 2 December 1988

This biennial conference has become one of the most successful events on the Financial Times' calendar. This is the Monnet Centenary year as well as that of the Financial Times and Valéry Giscard d'Estaing, the former French President, has accepted the invitation of the Financial Times to deliver the Jean Monnet Memorial Lecture which will be the main feature of the second afternoon forum. Giovanni Agnelli, Carlo De Benedetti and Romano Prodi will be among the leading Italian speakers and the chair will be taken by Denis Healey and by Carlo Ripa di Meana, Member of the Commission of the European Communities. Other contributors include Leon Brittan, Former Secretary of State for Trade and Industry and European Commissioner Designate and Bettino Craxi, Former Prime Minister of Italy.

All enquiries should be addressed to the:
Financial Times Conference Organisation,
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Tel: 01-925 2323 (24-hour answering service)
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PARLIAMENTARY

Today

Commons: European Community (Finance) Bill, committee.

Motion on Local Government (Prescribed Expenditure) (Amendment No. 2) Regulations.

Lords: Housing Bill, report.

Tomorrow

Commons: Opposition day debate "The state of the economy."

Road Traffic Bill, Road Traffic (Consequential Provisions) Bill and Road Traffic Offenders Bill, third readings.

Lords: Health and Medicines Bill, third reading.

Housing Bill, report.

Select committees: Members' Interests: subject, parliamentary lobbying. Witnesses: public policy consultants; G.J.W.; Ian Greer Associates. (Room 15, 4.30 p.m.)

Committees on Private Bills: Associated British Ports (No. 2); North Killingholme Cargo Terminal. (Room 6, 11 a.m.)

Wednesday

Commons: Lords amendments to the Housing (Scotland) Bill.

Motions on the Scottish Community Charge Regulations.

Lords: Housing Bill, report.

Church of England (Pensions) Measure.

Select committees: Agriculture: subject, land use and forestry. Witness: Forestry Commission (Room 20, 10.30 a.m.)

Environment: subject, toxic waste. Witness: CBI. (Room 21, 10.30 a.m.)

Defence: subject: future of the Brigade of Gurkhas. Witness: MoD. (Room 16, 11 a.m.)

Energy: subject, Northern Ireland Electricity report and accounts for 1988. Witnesses: officials from Northern Ireland Electricity. (Room 8, 11 a.m.)

Home Affairs: subject, foreign science service. Witness: Home Office. (Room 15, 4.15 p.m.)

Transport: subject, air traffic control safety. Witness: Civil Aviation Authority. (Room 17, 4.15 p.m.)

Treasury and Civil Service: subject, international monetary co-ordination. Witness: Sir Kit McMahon, chairman of Midland Bank. (Room 8, 4.30 p.m.)

Committees on Private Bills: Associated British Ports (No. 2) and North Killingholme Cargo Terminal. (Room 6, 10.30 a.m.)

Thursday

Commons: European Community (Finance) Bill, remaining stages. Motion on Housing (Northern Ireland) Order.

Lords: Housing Bill, report.

Parliamentary Constituencies (Scotland) (Miscellaneous Changes) Order 1988, motion for approval.

Committees on Private Bills: Associated British Ports (No. 2) and North Killingholme Cargo Terminal. (Room 6, 10.30 a.m.)

Friday

Commons: Debate on disposal of radioactive waste.

FINANCIAL

TODAY

COMPANY MEETINGS-
Clogau Gold Mines, Armoury House, City Road, E.C., 12.00
Murray Income Trust, 7 West Nile Street, Glasgow, 10.30
Pavion International, Connaught Rooms, Great Queen Street, W.C., 12.00

BOARD MEETINGS-
Finals:
Scottish Met. Property

DIVIDEND AND INTEREST PAYMENTS-
Fisher 0.75p
Gaskell Broadloom 2.6p
Industrias Penoles SA De C.V. Fltg. Rate Nts. 1989 $261.11
London Forfaiting 2.625p
Nationwide Bldg. Soc. Fltg. Rate Nts. 1996 (2nd Ser.) £51.44
Nth. Sea & General 0.5p
Raglan Property Tst. 0.132p
Severfield-Reeve 0.75p
Sheldon Jones 3.3p
Stirling Group 0.85p
Texas Instruments 18cts
Toronto-Dominion Bank 28cts
Travis & Arnold 1.6p
Wimpey (George) 3p
Wilson (Connolly) 1p

TOMORROW

COMPANY MEETINGS-
Caird Group, Drapers Garden, 12 Throgmorton Avenue, E.C., 10.00
Close Brothers, 33 Great St. Helens, E.C., 12.15
Hamburger Brooks, Grange Farm, Toton, Nottingham, 11.30
Jos Holdings, 20 Fenchurch Street, E.C., 12.30
Precious Metals Trust, 15 St. James' Place, S.W., 3.00

BOARD MEETINGS-
Finals:
Beazer
Cooper (F.)
Ensign Tst.
Prowest Hldgs.
Regina Health & Beauty
Interims:
Boosey & Hawkes
Cohen (A.)
English National Inv. Co.
FR Group
Forward Group
Moss Bros.
NMW Computers
Rand Mines Props.
St. Ives Group
Value & Income Tst.
Vanburgh Currency Fd.
Vivat Hldgs.
WA Hldgs.
Woolens Bellenware

DIVIDEND AND INTEREST PAYMENTS-
Barlow Rand 6pc Cum. Prf. 6cts
CPC Intl. 40cts
Conversion 9½pc 2004 4.75pc
Exchequer 11pc 1991 5.5pc
Gadek (Malaysia) Berhad M$0.1
General Electric Co. 35cts
Harlons Group 0.81p
Headlam,Sims & Coggins 0.75p
MTM 1.1p
Manchester (City of) 11½pc Red. 2007 5.75pc
Manufacturers Hanover 82cts
Treasury 9½pc 1988 4.75pc
Do. 10pc Cnv. 1990 5pc
Do. 9½pc 1988 4.75pc
Tronoh Mines Malaysia Berhad M$0.14

WEDNESDAY OCTOBER 26

COMPANY MEETINGS-
CALA, 42 Colinton Road, Edinburgh, 9.45
Triton Europe, Cafe Royale, 68 Regent Street, W., 12.00

BOARD MEETINGS-
Finals:
Barrett (Henry)
Intl. City Hldgs.
Overseas Inv. Tst.
Union Carbide Group
Wolseley
Interims:
Chelsea Artisans
Elliott (B.)
Lawrie Group
Shiloh

DIVIDEND AND INTEREST PAYMENTS-
Caird Group 3p
Close Bros. 3.85p
Desoutter Bros. 3p
Fluor Corp. 2cts
Kleenfold Inc. 1.8cts
Miller & Santhouse 2.75p
Murray Income Tst. 4.6p
Needler Group 3cts
Precious Metals Tst. 1.9p
Rotork 3.25p
Scottish Eastern Inv. Tst. 1p
Wyevale Garden Centres 1.4p

THURSDAY OCTOBER 27

COMPANY MEETINGS-
Bremner, Central Hotel, Gordon Street, Glasgow, 11.00
Gabicci, Gabicci House, Humber Road, N.W., 4.00
Lysander Petroleum, Salisbury House, London Wall, E.C., 11.00
St. David's Investment Trust, 2 North Street, Newport, Gwent, 12.15
Sirdar, Cedar Court Hotel, Wakefield, 12.00
Tor Investment Trust, The Dragon Hotel, The Kingsway, Swansea, 2.30

BOARD MEETINGS-
Finals:
Govett Oriental Tst.
Govett Strategic Inv. Tst.
Majestic Hldgs.
Nat. Home Loans
Interims:
Airflow Streamlines
Clarkson (H.)
ICI
Glasgow Inc.
Globe Inv. Tst.
Monarch Resources
New Ireland Hldgs.
Phillips
Rand Mines
Redland
Securities Tst. of Scotland
Smaller Co's Intl.
Smallshaw (R.)
Tie Rack
Tolstoi

DIVIDEND AND INTEREST PAYMENTS-
Bank of Nova Scotia NPV 20cts
CALA 1.9p
Exchequer 13¼pc 1994 6.75pc
Do. 15pc 1997 7.5pc
Inv. Tst. of Guernsey 0.55p
Lopex 2.4p
NatWest Finance BV Gtd. Fltg. Rate Cap. Nts. 1992 $195.39
Norfolk Capital 0.18p
Schroders 6p
Do. Non-Vtg 6p
Sinclair Goldsmith 2.1p
Sphere Inv. Tst. 0.875p

FRIDAY OCTOBER 28

COMPANY MEETINGS-
First Spanish Investment Trust, 40-66 Queen Victoria Street, E.C., 12.00
Multitone Electronics, Ironmongers Hall, Shaftesbury Place, E.C., 11.00
Optical & Medical International, 2 Lowndes Place, S.W., 12.00
Rivoli Cinemas, 15-17 Ridgemount Street, W.C., 4.00
TR Trustees Corporation, Mermaid House, 2 Puddle Dock, E.C., 12.45

BOARD MEETINGS-
Interims:
Aran Energy
Channel Tunnel Inv.
Clayton,Son & Co.
Durham (D.G.)
England (J.)
Fairhaven Intl.
Feedex Agric.
Ferguson Ind. Hldgs.
French Connections
Geers Gross
Hopkinsons Hldgs.
New Throgmorton Tst. (1983)
River & Merc. Geared Cap & Inc Tst.

DIVIDEND AND INTEREST PAYMENTS-
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Allied Irish Bank Subord. Prl. Cap. Perp. $228.87
Alumasc Group 5p
Asra Hldgs. 0.52p
BPP Hldgs. 3.4p
British Mohair 1.4p
Camellia Invs. 8p
Canadian Imperial Bank of Commerce NPV 25cts
Canadian Pacific NPV 19cts
Davies (D.Y.) 3p
Davis (Godfrey) 2.33p
Dow Chemical 70cts
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First Leisure Corp. 0.9p
Freeman Group 2.25p
Gibbs & Dandy 1p
Do. "A" Non-Vtg. 1p
Goodhead Group 3p
Jacksons Bourne End 0.75p
Jacobs (John I.) 1.5p
Laing (John) 3p
Do. "A" Non-Vtg. 3p
Lowe's Cos. 12cts
Matthews (Bernard) 1p
Merchants Tst. 3p
Metalrax Group 0.88p
Mezzanine Capital Corp. BOR Ptg. Red. Prf. 25.72cts
Nichols (J.N.)(Vimto) 3.5p
Norish 3.2p
Nurdin & Peacock 1.85p
Oliver (George)(Footwear) 2.5p
Do. "A" Non-Vtg. 2.6p
Optical & Medical Intl. 3.1p
P-E Intl. 1.4p
Paragon Comms. 1.1p
Pickwick 1p
Proudfoot (Alexander) 2p
Record Hldgs. 0.55p
Ricardo Consulting Engineers 2.25p
Rivoli Cinemas 125p
Ryan Hotels 0.5p
Saville Gordon (J.) 1.27p
Seacon Hldgs. 1p
Sedgwick Group 4p
Sherco Group 2p
VG Instruments 1.9p

SUNDAY OCTOBER 30

DIVIDEND AND INTEREST PAYMENTS-
Capital & Counties 6¼pc Cnv. Prf. 2.15625p

MANAGEMENT

West German insurance

Cut-throat competition will test Gerling's private status

Haig Simonian on the outlook for a key player in industrial risks

West Germany's insurance companies are facing a period of uncertainty as they line up for the European Community's planned free market in financial services after 1992. But the biggest question of all probably confronts Gerling, the privately-owned group which has carved out a distinctive niche in insuring industrial risks and now ranks among Germany's top three insurers.

Industrial insurance in Germany is likely to see some of the toughest competition once the barriers to cross-border business come down. Even the biggest of the foreign groups now eyeing the lucrative German market will think twice about attacking mass retail insurance, where they will incur heavy costs in building up a sales force. But industrial risks are another matter, and many observers expect that the competition to win business from Germany's big companies will be cutthroat.

Gerling's status as a private company in a world of publicly-quoted giants makes it more vulnerable than most, assuming, as many analysts do, that size and economies of scale will become increasingly important after 1992.

Thus, some observers doubt its long-term ability to survive in its present form, while others see it as a prime takeover target for one of the many foreign groups keen to expand in Germany.

The fact that Hans Gerling, the present owner, has just turned 73 plays no small part in their calculations.

But the ability to survive has been one of Gerling's most distinctive characteristics since being founded in Cologne in 1904 by Robert Gerling. Ownership passed on his death to his son, Hans, who built up the company, and then rebuilt it after the Second World War.

Under him, group premiums, including all its domestic and foreign activities, have climbed to around DM 6.5bn (£2bn) now, some 4 per cent up on 1986. The company predicts slightly greater growth this year.

Results for the ultimate holding company, Gerling-Konzern Versichersungs Beteiligungs, are not revealed, though the main subsidiares report separately. Among them, Gerling Globale Rückversicherung, the re-insurance arm, notched up premiums of DM 1.1bn (or DM 1.9bn if inter-group business is included) in 1986-87, ranking it among the top four companies – though way behind the Munich RE, the world leader. Gerling Lebensversicherung, the life insurance unit, accounted for DM 1.4bn in premiums last year.

More recently, the group has set up special offshoots for analysing and managing risks such as environmental and product liabilities.

However, industrial insurance remains Gerling's bread and butter, typified by its slogan as "the insurer for industry." When it comes to industrial fire, transport or liability policies, Gerling is number one in Germany, even ahead of giant rivals like Allianz.

Premiums at Gerling Allgemeine Versicherung, the core industrial insurance unit, amounted to DM 2.1bn last year – some 32 per cent of the group total. The company is the only part of the Gerling group to have any outside shareholders, with about 14 per cent of its shares held by the general public – usually middle-sized companies or their owners, many of whom are known to the Gerling family. The shares seldom change hands.

A number of banks would probably be delighted to take the group public

Many of Gerling's other activities tend to be derived from the mainstream industrial business. Thus, its life insurance activities are often directed towards the senior management and employees of the major companies whose risks it insures, rather than the general public, making it even more dependent on industrial business and further vulnerable to 1992, observers say.

Herwig Gückelhorn, the group's spokesman, who also runs two of its subsidiaries, is confident it can survive in its existing form, despite the challenges ahead. "We are not afraid because we are the best" in industrial insurance, he claims. Foreign insurers will only be able to raise their presence slowly as market share in industrial insurance "is not to be gained by dumping."

Moreover, the owner has "no plans to step down" and remains "fully involved in the business," he says.

Nor is the succession a problem, as Gerling's only son, Rolf, is being groomed to take over. He already sits on the group's supervisory board, and even inheritance tax problems have been sorted out – which partly explains why Gerling junior is based in Zurich. However, Gerling senior has not kept out of the news. He, like a number of other leading German business figures, has been embroiled in a lengthy and highly publicised legal battle regarding political contributions.

Gerling has been approached by potential bidders in recent years. Helmut Gies, chief executive of the Aachener und Münchener insurance group, which is 20 per cent owned by Royal Insurance of the UK, was strongly interested in the group before changing tack and buying a majority stake in Bank für Gemeinwirtschaft in 1987.

Other bidders remain keen, however. "There is plenty of interest, as Gerling is a pearl," says one of its executives. Some US bidders have offered "fascinating" prices for a relatively small stake "in order to gain a foothold," he adds.

Gerling executives appear outwardly unruffled, despite the fact that the company's future is such a topic of debate. Understanding why requires a look back at the extraordinary management saga which began in 1974, when the collapse of Bankhaus Herstatt, the Cologne-based private bank in which the Gerling group had a majority stake, put Gerling's ownership in jeopardy.

Gerling was obliged to sell 51 per cent of his group to help finance a Herstatt debt settlement. Half the 51 per cent stake went to VHDI, a holding company specially set up by some of Gerling's industrial clients, while the other half was bought by Zurich Versicherung.

Hans Gerling: No plans to step down

The Swiss later sold out to Friedrich Karl Flick, the German industrialist, who also bought up the VHDI stake. Then in December 1985, Flick himself suddenly decided to sell out, allowing Gerling to regain full control.

The re-acquisition triggered strong rumours throughout 1986 that Gerling would be partly floated to raise capital. The talk about an initial public offering was "all complete speculation," says Gückelhorn.

"We don't need more capital," says Richard Woltereck, chief executive of Gerling Globale, explaining the group's position now. "There are no plans at all to go public," adds Gückelhorn.

Both Gückelhorn and Woltereck cite the willingness of German industrialists to buy Gerling's stake during the Herstatt affair as proof that the group is secure against a bid. "German industrial companies wanted to keep Gerling like it was. They wanted it to stay German," they say.

Likewise they draw attention to the failure of Zurich Versicherung's attempt to make use of its minority stake as a stepping stone towards full control. "They saw that it made no sense," says Gückelhorn, suggesting that the Swiss came to realise that Gerling was not the right vehicle for them and did not fit in with their plans for Germany.

Internal friction between the Swiss and the existing management certainly did not help. Rumours still circulate about the differences between loyal Gerling executives and the Swiss, who felt frustrated that they could not use their minority stake to better effect. "They didn't even speak the right German," recalls one Gerling executive tellingly.

The Swiss experience may help to explain why Gerling executives act so confidently in public today when it comes to discussing the company's future. But that does not mean the group is immune to change forever. Few observers of the German insurance scene think Gerling can survive in its present form; 1992 may just prompt the inevitable.

"Gerling is an excellent company, but is it really big enough to compete with the biggest international groups?" asks the head of one of Germany's leading re-insurers. "The group will have to change in the long run as industrial insurance becomes even more competitive."

Whether the ultimate buyer is Deutsche Bank or a large foreign insurer is a question he leaves tantalisingly open. "In a big company, family ownership is not the future," agrees the chief executive of one of Germany's best-known primary insurers.

What then is the future for Gerling? Clearly an outside bid would have to be friendly to overcome difficulties either with the company's existing management or its faithful industrial clients. And minority stakes clearly achieve little for the buyer unless there is some guarantee of full control to come.

That suggests that a domestic rather than a foreign bidder is likely to be the more acceptable, and hence successful, should it come to a takeover. Whether the buyer might be a bank or another insurer is another matter.

However, those who see Gerling almost inevitably falling into the clutches of Deutsche Bank or Allianz should not rule out the possibility of a flotation. A number of banks would probably be delighted to take the group public, and the stock should be well received, given the familiar name.

Could the Gerlings, father or son, soldier on alone? The scale and lavishness of Gerling's office at the group's slightly bombastic 1950s headquarters, just to the west of Cologne's city centre, speaks volumes about the dynastic leanings often criticised by his rivals.

Carrying on for another generation or more looks improbable in view of 1992 and the upsurge in competition that will ensue. But the Gerlings are not about to throw in the towel immediately. One newspaper article written in the heat of the Herstatt affair was headlined "Dr Gerling starts to run out of time." That was in 1974, but the clock is still ticking.

Morality and the marketplace

Michael Skapinker reports on a discussion of differing religious attitudes to business

Neville Cooper, chairman of the Institute of Business Ethics, says critics of his organisation tend to fall into two camps. Some say business ethics is a contradiction in terms. Others protest that business is hard enough without bringing ethics into it.

The Institute was launched in 1986. From the start, it has had something of a religious connection. The impetus for its foundation came from members of the Christian Association of Business Executives.

They felt, however, that the institute should appeal to Jews and Moslems too. Lord Jakobovits, the Chief Rabbi, and Shaikh Gamal M.A. Solaiman, Imam of the London Central Mosque, agreed to become patrons, along with the Archbishop of Canterbury and other Christian leaders.

Last week the institute brought representatives of its three constituent faiths together to explain how they viewed the subject of business ethics. Although there were areas of agreement, the three speakers did not attempt to gloss over the differences.

Shaikh Solaiman told the conference that the Islamic faith believed in the marrying of spiritual and material satisfaction. It was by no means opposed to business.

"Trading is looked upon as a very important aspect of the life of Moslems. Trading can even be spiritually rewarding," he said. "Islam is very much for free market forces, provided they operate within an ethical framework."

That ethical framework included the setting of a fair price and the protection of the consumer. "Once the Prophet was in the market and his hand reached down into some food until he felt a moist part of it. The merchant said the food had been affected by rain. The Prophet said: 'Why don't you put the moist part on top where people can see it?'"

Asked whether any of the business practices of predominantly Christian Britain were at odds with the ethics of Islam, Shaikh Solaiman said conflicts arose in the areas of banking and insurance.

Islam frowns on usury. Mortgages, with the interest payments involved, amounted to usury. Insurance too, he said, "contains elements of speculation and gambling."

The Jewish view on business ethics, as presented by Rabbi Shlomo Levin, differed in certain respects from that of Sheikh Solaiman. It did, however, have the same starting point.

"One of the central planks of Jewish thought is that there is no schism between religion and the marketplace," he said. Apart from being a rabbi, Rabbi Levin is also in the property business. "There is no problem whatsoever in being a rabbi and a businessman," he said.

All the same "it would be quite wrong to describe Judaism as a supporter of capitalism. It would be equally wrong to describe Judaism as a supporter of socialism. Judaism subscribes to elements of both of those systems."

"But I will tell you the good news about the Jewish faith. Entrepreneurship is legitimate and profit is moral, provided it is earned in the right way."

It is wrong, he said, for sellers to offer potential customers bad advice. And customers can ask for a sale to be voided if they find they have been persuaded to pay more than one sixth above the prevailing market price.

Presenting a Roman Catholic view, Father McHugh, author of a book on business ethics, said Christians found it less easy to reconcile spiritual and temporal values. "When Christian churches discuss business ethics there's always a sense of tension," he said.

Support for the concept of wealth creation could be found in the Old Testament, although it did say that those who made haste to be rich would not be innocent. The New Testament, on the other hand, gave primacy to spiritual values and contains "no text that praises profit or business life."

Christian writers, however, have praised wealth creation. Father McHugh said it should be seen as a means to an end and that people should always be regarded as "the foundation, purpose and end of economic activity."

Ninety-one per cent of British businessmen believe that 1992 will be good for business.

Good news. Well yes, except that behind this statistic lurks another. Forty-one per cent of those surveyed, revealed they had no game-plan whatsoever.

Frankly that's something that worries the life out of us.

In 1992, we'll all be fish in a much larger pond. And whilst this means more opportunities, it also naturally means more predators.

For the fact remains that if you can see an opportunity, so can your rivals.

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Well to start with, you need expert advice. And as one of the advisers to the European Commission, that's something we're well placed to provide.

We'll give you an in-depth analysis of how 1992 will affect not only your business, but that of your clients and suppliers.

And we'll follow this up with a detailed plan of action, telling you what you should be doing about it.

More important, thanks to our extensive network of European offices, we can also give you on-the-spot help as you put your game-plan into practice.

So that, come 1992, when everyone else is waiting for things to change, you're up there making the changes.

Ernst & Whinney
Accountants, Advisers, Consultants

Alison Maitland in London and **Bob King** in Taipei explain the collapse in Taiwan's stock market

The agony of a slow motion slide

Economic success brought prosperity to the streets of Taipei, Taiwan's capital

Miss Jill Lin, a 27-year-old reporter at Trade Winds Publications in Taipei, is distraught. Against all advice and logic, she took her life savings of Taiwan $500,000 (£10,000) and pumped it into the local stock market on September 23, just one day before the Government triggered a price collapse by announcing it would tax capital gains on share profits from next year.

Miss Lin says that, on paper, she has already lost well over her annual salary of T$195,000 as the weighted index has fallen from an all-time peak of 8,789.78 on September 24 to 5,739.66 on Saturday.

Like many other small investors who bet on the index rising indefinitely, Miss Lin blames the authorities for her misfortune. "The Government has been encouraging people to invest in good companies but this is ridiculous. All companies' shares are going down," she said last week. "The foreign publications have been telling us the market was going to collapse but local papers said that foreigners don't understand the Chinese. We believed the market would follow the Japanese model and go up to 10,000 points."

There has been plenty of time for recrimination. This has been a slow motion crash, because government regulations limit daily movements to 3 per cent of the previous closing price. Each day, investors have watched the index slide, unable to escape because there were no buyers. The pattern has been broken only once, during last Saturday's two-hour trading session. For the first time in three weeks, the market recovered slightly – prompted, local brokers say, by share purchases by state banks and large corporations orchestrated by the government.

There have been other signs of government concern, stimulated by angry street protests and behind-the-scenes political pressure from brokers. Nine days after announcing the tax on capital gains, Ms Shirley Kuo, the newly appointed finance minister, raised the threshold from T$3m worth of share sales annually to T$10m. The Government has also promised to halve the existing tax rate on share transactions from 0.3 per cent to 0.15 per cent, and it has lowered the amount required as downpayment on new share purchases.

What happens next to the market is anybody's guess. Some brokers believe the index could find support at the 5,000 level, while others suggest it could fall as low as 2,000. Yet that would only take it back to where it was at the start of the year. Indeed, its 35 per cent drop so far pales into insignificance beside the 276 per cent climb in the index to this year's peak.

Moreover, Taiwan has its own, arguably encouraging, precedent. Last year, the mood in the local market turned sour on October 1 – two and a half weeks before the global crash – after the index had spiralled up by a dizzy 340 per cent to 4,673. In the ensuing fallout, the doomsayers found a wide audience. Yet only three months later, this year's upward march, swept along on a sea of idle cash, was well under way.

Once the present alarm subsides, it may be better understood that very few small investors will actually buy enough shares to be affected by the new tax. And as Ms Kuo herself pointed out at a press conference, nothing prevents an investor with transactions above the T$10m threshold from making them in the name of his wife, children, aunts, or uncles.

The pain and anger, then, stem more from psychological than practical factors. Mr Benny Hu, president of China Securities Investment Co., who personally favours the tax, believes the Government made a serious error of timing.

"In Japan," he says, "the question of a capital gains tax was first a subject of national debate and discussion. When a consensus was reached, the Government announced the tax, but said it would go into effect a year after the announcement."

The Taipei tax move, he argues, has succeeded only in heaping the blame for the ensuing panic on the Government – and not on the human frailties and financial absurdities that lie beneath.

The helter-skelter rise in the index sent price-earnings ratios to levels that bore no relation to underlying company values. The historic market average at the peak was calculated by one leading brokerage as 195, way above Tokyo's 53, New York's 13 and London's 12. Some stocks in the financial sector, which accounts for around 50 per cent of the index, were on multiples of 200 or more.

Even more phenomenal was the increase in market turnover, from a daily average of less than T$18bn in the first months of this year to an all-time high of T$70.8bn on September 21, making Taiwan the busiest market in the world after New York and Tokyo.

An average turnover of T$50bn in the roaring days of August and September meant that the equivalent of nearly 2 per cent of Taiwan's gross national product was passing every day through an immature market with just 142 listed companies. As more taxi drivers, maids and pensioners flooded in, the number of new accounts at brokerage houses reached a record of 105,000 in August, compared with a monthly average of 13,422 in 1987 and 27,580 in 1988, according to James Capel, the securities firm.

Such statistics should have given cause for alarm. To the better informed, they did. Foreigners, who can invest in Taiwan only through four offshore funds, had been taking their hefty profits for two or three months before the collapse. The funds ceased to trade at a premium to net asset value about four months ago and are now at a discount of about 10 per cent, according to Mr Robert Simpson of James Capel. The closed end Taiwan Fund, quoted in New York, had fallen from a high of US$42 to US$28¾ by Friday, but is still well above its December 1986 launch price of US$10.25.

Institutional investors in Taiwan also began pulling back from the market as early as August, and some better-informed big private players were maintaining a reasonable level of liquidity long before the tax announcement.

So it is the small investors – accounting for 85 per cent of the market's turnover as they frequently buy and sell stock within a week – who have been worst hit by the slump in prices.

Sad as the case of Miss Lin is, she may be luckier than those who gambled more than their life savings. Thousands of small investors mortgaged their homes in expectation of sure riches or borrowed heavily from "underground" financing groups that have mushroomed this year.

Many small and medium-sized companies staked their retained earnings on an index that people believed would rise indefinitely. Even if Saturday's orchestrated rally succeeds in stabilising the market, the drop of the past three weeks means that such companies stand to lose heavily, as do many of the 15 or so new securities houses that have opened in the past few months and may not be able to meet their obligations.

Grimmer consequences could appear. Some underground lenders have, according to Taipei lore, less than polite ways of collecting money due to them. Many are said to employ muscle men to intimidate and if necessary use violence against debtors who will not or cannot pay up.

Another disturbing aspect is the number of unofficial brokerages. These invest people's savings in the stock and property markets in return for a monthly interest payment of 4-8 per cent. Estimates of the amount collected vary from about US$3bn to US$10bn, and there is little knowing what actually happens to the money, says Mr Myrick Hatch, the local managing director of Citicorp Scrimgeour Vickers Securities. "What we're looking for is at what point news leaks out that some of these unlicensed investment houses are in trouble due to this crash and we begin to see runs on them, which would only feed back and further poison sentiment."

The amount of borrowed money financing the Taiwanese casino had reached alarming proportions. Citicorp Scrimgeour Vickers estimates that of the freely tradeable stock in the market, roughly 40 per cent – or US$12bn before the bubble burst – was financed by debt.

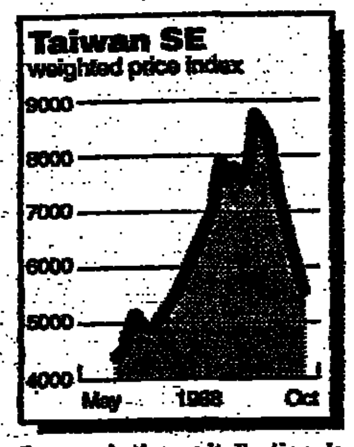
While loose practices and a lack of sophistication played their part, greed also had a role, mixed liberally with the Chinese tendency to gamble on anything from cricket fights to whether the last digit on the number plate of the next car to come around the corner will be odd or even.

That greed seems to be a side-effect of Taiwan's incredible economic success of the past two decades. The island abounds with ready cash and material goods. GNP has grown by an average of more than 9 per cent annually for the past 27 years. Per capita income has risen from US$3,600 in 1986 to an expected US$6,000 this year and the Government confidently predicts it will reach US$15,000 by the turn of the century, placing Taiwan firmly in the ranks of developed nations. The trade surplus – US$19bn last year – has brought a flood of liquidity with few outlets other than the stock and property markets, and money supply growth is still running at an annualised rate of 27 per cent even though it is declining.

"Pure and simple, the people are spoiled," said Mr Mason Chu, an entrepreneur, at a recent dinner party where the guests were young, affluent, sophisticated members of Taiwan's governmental, educational and business élite.

Many of the guests around the table admitted ruefully that they, too, had been caught out in the market. But the consensus was that the pinprick that burst the bubble – the re-introduction of the capital gains tax after more than 18 years – was a reasonable measure for an economy like Taiwan's.

There seems little likelihood that the market collapse will put this manufacturing-based economy in serious danger. In Taiwan, the stock market is not generally used by companies as a source of capital. During the boom of the past two to three years, most companies have not needed to raise cash in the market, anyway. But there is also a tradition of closely-held, family-owned businesses, reluctant to see wide public ownership of their shares. Roughly 80 per cent of the market's capitalisation is in the hands of government-owned companies or private families.



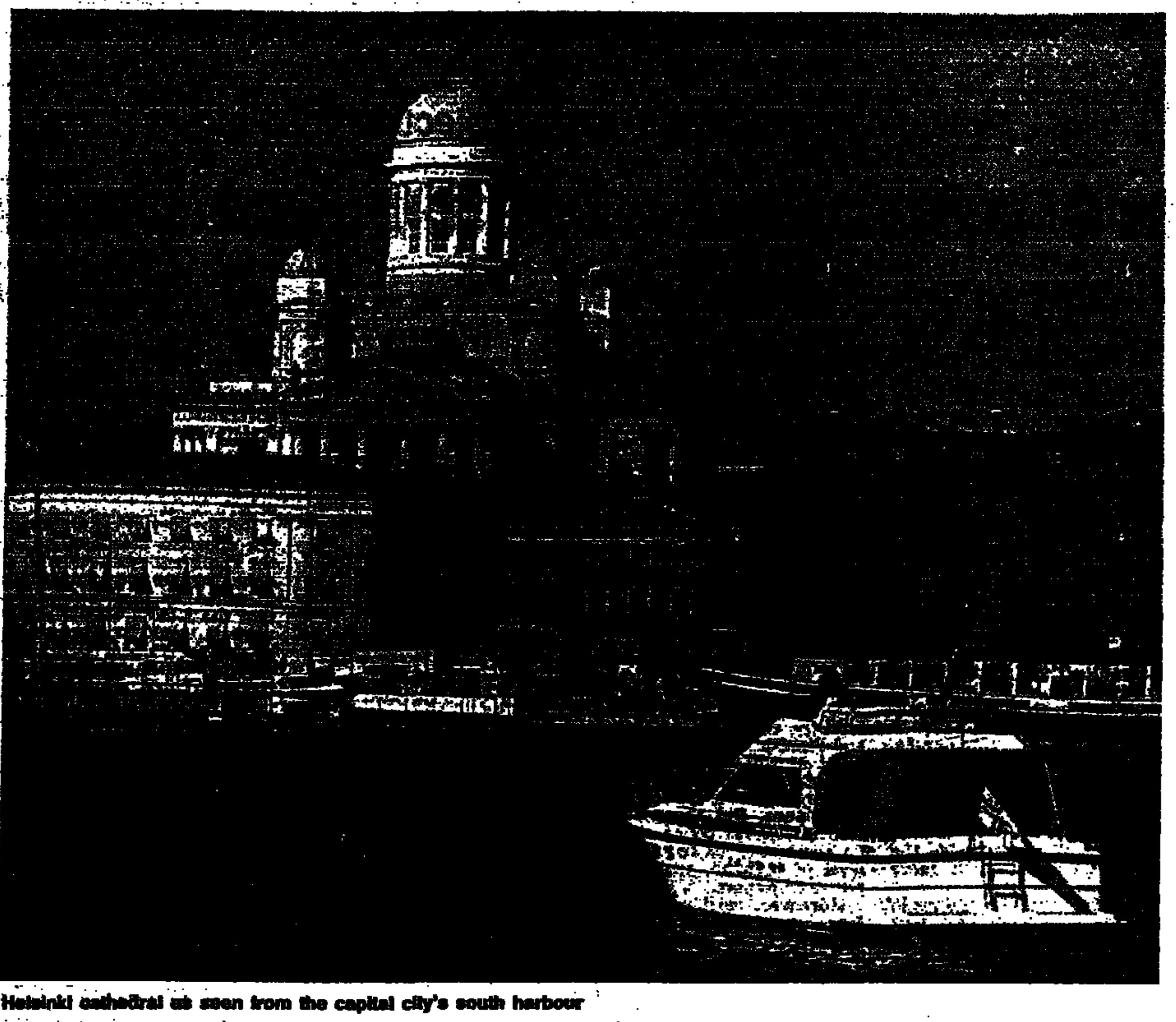
If the fallout does not affect the wider economy, it has created political and social friction. Some experts think it will be hard to avoid a repeat of this year's volatility as long as Taiwan continues to have such huge excess cash. But they say the Government could act to improve matters in three ways: by cracking down on illegal market practices and allowing more foreign firms to bring in their expertise through joint ventures with local brokerages; by encouraging companies to list more of their shares and broaden the market; and by ensuring that more professional institutions such as pension or mutual funds are established to provide stability and channel long-term savings into stocks.

In a country that loves gambling as much as Taiwan, there are no guarantees that small investors like Miss Lin will not get burned again. But these measures would go a long way towards preventing their dreams from turning sour.

FINANCIAL TIMES SURVEY

Having achieved one of the best growth rates in the Western world in the 1980s, Finland must now meet the challenges posed by the EC move to a single market, without jeopardising its national independence and good relations with Moscow. **Robert Taylor reports**

Neutrality put on the line



Helsinki cathedral as seen from the capital city's south harbour

FINLAND

FINLAND'S ROLE in the world is about to become the focus for a national debate this autumn, which should go a long way to establish what its strategic priorities will be for the rest of the century.

Of all the Nordic countries since the end of the Second World War, Finland has been compelled to perform the most delicate diplomatic balancing act, trying with considerable panache to uphold its political neutrality with economic freedom as a market economy under the often inscrutable gaze of its giant neighbour, the Soviet Union.

But next month the fundamental principles that lie at the heart of Finland's post-war strategy will come under public scrutiny when the Finnish government publishes a White Paper on the challenge that the European Community's drive to create a free internal market poses for the country.

Finland is still a relatively young nation that has grown up remarkably fast during the 1980s with one of the most impressive annual economic growth rates in the Western industrialised world. Its living standards have almost caught up with the rest of affluent Scandinavia, much to the surprise and often ill-disguised chagrin of Swedes, who were once the country's colonial masters.

It is true that many Finns still worry self-consciously about what they regard as their unfavourable international image and some still appear to suffer from an unjustified sense of inferiority when compared with their Nordic neighbours.

But this year Finland does seem to have well and truly buried the slur of Finlandisation — the mythical but potently held view that the country is really little more than a Soviet satellite without being militarily occupied — that has often distorted Western attitudes towards Finland since the second world war.

En route this May to his Moscow summit conference with Mikhail Gorbachev, President Reagan took the opportunity of a stopover for a few days in Helsinki to recuperate from jet lag to make a speech at the Finlandia Hall which delighted his Finnish audience by asserting that the US "respected" Finland's neutrality, supported its independence and honoured its "courageous history".

As Finland's prime minister Mr Harri Holkeri, explained during a visit to Los Angeles last February, perhaps with the many doubting or ignorant Americans in mind, his country is "tied to western values of freedom, democracy and human rights". Mr Reagan and his advisers now seem to concur with that belief, recognising that Helsinki conducts its own affairs beholden to nobody else.

Having to explain the facts of life about Finland's delicate geopolitical position in international affairs to sceptical Westerners has been a necessary preoccupation of the country's foreign policy-makers ever since the signing of the Soviet-Finnish treaty of friendship and mutual co-operation in 1948, a few weeks after the Communist seizure of power in Czechoslovakia signalled the start of the Cold War.

However, the special, complex relationship between the Soviet Union and Finland over the past forty years has endured the arbitrary ups and downs of Kremlin policy and today there can be no doubting Finland's democratic credentials as an independent nation.

On the other hand, Helsinki cannot really afford to ignore what its big neighbour to the east thinks about the Finnish outlook on the world. From the last years of Stalin to Mr Gorbachev's perestroika, Finland's foreign policy has sought to practise peaceful co-existence with Moscow, while at the same time increasing its economic and other links to the countries of western Europe.

Inevitably this has imposed some clear limitations on Finland's room for diplomatic manoeuvre, but Finnish public opinion continues to support strongly what has come to be known as the Paasikivi-Kekkonen line, after Finland's first two post-war presidents.

Yet there is now a growing threat to the country's traditional role as a tough neutral, building contacts between East and West.

The challenge of the European Community means that Finland will have to formulate a positive response, which will not jeopardise their neutrality or their relationship with Moscow. This will not prove easy to achieve.

Unsurprisingly most Finns dislike the idea of a highly centralised EC. They share Mrs Thatcher's distaste for what President Jacques Delors has been saying recently about the need for a more centralised decision-making authority in Brussels.

"We don't believe in the Europe of Brussels but in De Gaulle's old concept of a Europe that stretches from the Atlantic to the Urals", admitted one senior policy maker at the Ministry of Foreign Affairs recently. "This is why we support what we think Mrs Thatcher stands for".

President Mauno Koivisto made much the same point during his state visit to Hungary in June when he said: "Our common history has taught us Europeans that our opportunities lie in co-operation, not in erecting fences nor barriers. Europe's strength will continue to be in its intellectual richness, capacity for renewal and open interaction."

The outlook today from Helsinki over the European continent is necessarily wider and more expansive than the view from the EC's Brussels headquarters and that remains perfectly understandable. But it is beginning to raise genuine doubts about whether the underlying assumptions of Finnish foreign policy are really compatible with the country's growing economic needs for ever closer trading and industrial ties with the EC.

The extent of those links with Western Europe is now considerable. Around 65 per cent of Finland's exports now go to that area, as much as 42 per cent to the EC. The Confederation of Finnish Industries admitted in a study of the EC published this summer: "It is absolutely vital for us to be able to maintain and improve our competitive positions on the changing west European market".

It went on to suggest that if Finland was left behind by "the integration bandwagon" this would "inevitably lead to poorer competitive capacity, shrinking exports, economic regression and lower standards of living."

At this June's conference of the European Free Trade Association at Tampere, Finland made it clearer, perhaps more than any other member, that it is anxious to work through EFTA on a jointly agreed strategy which will respond in a positive and co-ordinated way to EC developments.

Ideally what Finland would like to see are equal opportunities for Finnish companies inside the EC through the creation of what was described rather imprecisely in the 1984 Luxembourg declaration as the creation of a European economic space".

During the summer Mr Delors, as well as the EC's external relations commissioner Mr Willy de Clercq, visited Finland and their calming words in private have gone some way to convince both the Finnish government and senior industrialists that their country's interests will not be jeopardised by the move to a free, internal market.

Finnish diplomats point out that they embraced an open economic strategy for their country as long ago as 1957 when trading arrangements with western Europe were first liberalised and put on a multilateral basis. With measured steps Finland, over the intervening years, has joined in the economic institutions of the Western world.

It became an associate member of the European Free Trade Association in 1961 though only a full participant two years ago. In 1968 it joined the Organisation for Co-operation and Development. Finland is also now a member of the European Space Agency and involved in the Eureka programme. In a rather belated move it seems likely to join the Council of Europe next year after a long period as a spectator.

But whatever positive moves Finland might make towards the EC in response to the growth of its internal market, there are no voices being raised in Helsinki at the moment which suggest the country should jeopardise its post-war diplomatic settlement. On the contrary, the very real inhibitions on Finland's room for manoeuvre look like remaining intact whatever the other Nordic countries may do to improve their relations with the EC.

Yet at the same time Finnish policy-makers are having to recognise that the country will have to change many of its domestic economic and social policies if it is serious about wanting to bring itself into line with EC developments over the next three years.

As the Confederation of Finnish Industry acknowledged this summer: "Economic integration is always a two-edged sword. It creates new opportunities for our exports and international operations, but it also opens up our markets to more competition. In some cases stiffer competition may undermine business operating potential and market conditions in the home market."

Finland will have to take down all its restrictions on foreign companies operating in the country and agree to a free movement of manufactured goods, services, capital and labour.

By Nordic standards Finland may have already experienced considerable deregulation in the 1980's but it still has a long way to go.

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Politics: in this month's local election results . . .

Voters approve of left-right coalition

THIS MONTH'S local government election results suggest that the Finnish voters approve of the Social Democratic-Conservative coalition government that was formed last year. More than ever, the country's political system appears to be dominated by a wide consensus, which looks likely now to remain intact at least until the next parliamentary elections which are not due until the spring of 1991.

Mr Harri Holkeri's grand coalition brought the right and the left together for the first time in twenty years and it commands the support of nearly two thirds of Parliament.

In the view of veteran Finnish commentator Max Jakobson this means that Finnish politics "has caught up with social realities".

As he explains: "The ideological division between right and left makes little sense in a post-industrial, urban, affluent middle-class society. The Conservatives long ago came to terms with the welfare state; the Social Democrats have accepted the market economy as a fact of life".

The municipal elections earlier this month were a good indicator of the popularity of the new national government and despite some understandable jitters, particularly on the left, they proved to be a surprising triumph for the Social Democrats as much as for the Conservatives, known in Finland as the National Coalition party.

The main party of the left polled 25.3 per cent of the vote,which was 0.5 per cent better than four years ago and 1.2 per cent up on their showing in last year's general election. For their part, the Conservatives polled 22.9 per cent of the vote, a fall of a mere 0.1 per cent on four years ago and 0.2 per cent less than in the 1987 national contest.

The apparent boost of confidence for Mr Holkieri's coalition, however, was not entirely satisfactory. The turnout in the municipal elections was 69.9 per cent, certainly high by British standards but the lowest recorded in Finland for over twenty years. Commentators have blamed the rising apathy among younger voters who seem to have no active interest in politics. While some regard this trend as a worrying sign, others believe it really underlines the basic strength of the Finnish system because it suggests considerable contentment with the present status quo.

Certainly President Mauno Koivisto, who was himself elected as a Social Democrat for a further six year term last February, has been able to draw some comfort from this apparent endorsement of his own preference for a right-left government. His party is breathing a sigh of relief at the outcome for they feared many Social Democratic voters might abandon their traditional loyalties in protest at the government's economic policies. This did not happen and it indicates there is much less grassroots discontent than some on the left of the party believed.

Ms Ulpu Iivari, the party's general secretary, says they were "very surprised" at just how willing the Conservatives were to negotiate on an agreed programme for government a year and a half ago. In its early months the right-centre coalition appeared to be dominated by the Social Democrats, mainly because they benefited from the advantage of administrative experience gained over the twenty years they have been in office but the balance of political power inside the government is much more even now.

It is true that the reforms in the tax system for next year are much less advantageous to

Harri Holkeri, Prime Minister of Finland

industry than first envisaged and Finnish business is rather upset at what it sees as the lack of strong influence by the Conservatives on the Ministry of Finance. But the government's incomes policy should go some way to reduce the level of inflation, which will please employers.

Moreover, earlier business fears that proposed labour market reforms would be too left-wing have not been borne out by the reality. The Social Democrats have compromised on the changes which will only bring Finland more into line with western European practice in giving workers a legal right to negotiations in any major changes affecting their companies and longer notice before they are ever dismissed.

A good indication of the growing self-confidence of Conservative prime minister Harri Holkeri in his relations with his Social Democratic partners came this summer when despite considerable uproar on the left and in the unions he refused to back down over a government guarantee to the metals conglomerate Outokumpu to cover a MKs200m loan for the modernisation of the La Escondida copper mine in Pinochet's Chile.

But the fury of the unions at the apparent collaboration of the Finnish government with a hated regime was somewhat tempered by their realisation that the jobs of 1,300 Finnish workers would be jeopardised at the company's Harjavalta smelting works if the loan had not gone ahead.

The Conservatives did not achieve their objective in this month's municipal elections of actually becoming Finland's biggest party. But they appear in good heart after more than twenty years in the political wilderness.

By adapting a more pragmatic approach, and moving towards the centre ground in the 1980s, the party has begun to look a reasonable alternative to the Social Democrats.

Mr Antti Peltomaki, the party's international affairs' secretary, believes that the revival of Finnish Conservatism derives from the change in generations in the leadership. Its growing electoral appeal to younger, urbanised voters suggests that the party is well positioned to take advantage of the prosperity of the Finnish economy, by making a strong pitch to those who will benefit from a more individualistic approach to political issues.

The hegemony of the coalition is extremely frustrating to the main opposition Centre party led by the charismatic Mr Paavo Vayrynen, which suddenly found itself out of national office in April 1987 after being a major force in every government since Finland's independence.

In this month's local authority elections the Centre polled 21.2 per cent of the vote, an increase of 0.9 per cent on its performance four years earlier though 3.6 per cent better than their vote in the 1987 general election. The result was satisfactory enough but it fell short of Centre party expectations and it is increasingly unlikely that it will be able to stage an effective recovery for the moment.

In fact, the Centre sees the period ahead as a time for a reflective assessment of its ideology and programme. With its major support among farmers and small businessmen, the party is taking a more critical attitude to the power of the big corporations. But it seems unlikely to abandon its belief in the consensus of a market economy, tempered by a sense of social justice for those, particularly in the northern areas of the country, who have failed to benefit as much as the rest from Finland's boom years.

The mould of Finnish politics was broken decisively in April 1987 with the arrival of the Conservatives in power but the move to the moderate right has been less dramatic than seemed likely a year and a half ago. Indeed, President Koivisto and his Social Democrats have shown considerable skill in ensuring that their own electoral position has not been further weakened.

For the next three years both right and left have a vested interest in making the power-sharing experiment work. It will certainly provide the best conditions of political stability for the important decisions that must be made on a wide range of issues from the EC to Soviet relations, from social reforms to incomes policy and deregulation.

Robert Taylor

PROFILE: MAX JACOBSON

The nation's interpreter

MAX JACOBSON is the interpreter of Finland to the English speaking world. His country's former ambassador to the United Nations, he was vetoed by the Soviet Union who prefered Dr Kurt Waldheim for the post of UN secretary-general in 1971. Now retired from a distinguished career in the Finnish diplomatic service, the 65-year old Jacobson spends much of his time travelling in western Europe for Finnish industry, explaining the mysteries of modern Finland to key business and political decision-makers. Unlike the hapless Waldheim he is a credit not an embarrassment to his country.

As a young soldier with the Finnish army, he was stationed 30 miles outside Leningrad during the Nazi siege of the city, and his wartime experiences have given Jacobson an acute appreciation of the importance of Finland's recent history to an understanding of its current attitudes.

Back in 1961 he wrote a history of the Finnish-Soviet winter war of 1939-40 in the English language, which remains the classic account of that epic struggle. The Winter War was the decisive event because it had a profound impact on Stalin, says Jacobson. "It put an end to any aspirations in Moscow to reincorporate Finland into the Russian Empire". However, the Finns lost that conflict and they were forced to give up the province of Karelia to Stalin as the price of peace.

Nearly a year and a half later they joined in Hitler's Operation Barbarossa against the Soviet Union with the limited objective of recovering their recently lost territories. But Jacobson points out that Finland did not share the genocidal obsessions of the Nazis and its government under the inspiration of the legendary Field Marshal Mannerheim refused to dispatch the Finnish army beyond the boundaries of liberated Karelia. It is possible that the Finnish decision not to help tighten the noose around Leningrad helped to save the city from Hitler by enabling Soviet assistance to be transported across Lake Ladoga throughout the length of the siege.

Certainly Stalin appeared to display a wary respect, perhaps even a secret admiration, for the Finns and he does not seem to have regarded them as ideological collaborators with Nazism. Although they were forced into a negotiated settlement on humiliating terms in 1944 with the Soviet Union, which required them to pay huge reparations to Moscow as well as expel German troops from northern Finland, the Finns preserved their political independence at a time when the triumphant Red Army was sweeping across eastern Europe to Berlin and Stalin was busy organising pro-Soviet puppet regimes in the liberated countries.

Jacobson believes you cannot really understand today's Finland without an appreciation of those years of adversity that the country endured between 1939 and 1945. As many as 100,000 Finns were killed, a devastating loss for a country of only four and a half million people. "Now I suppose

Max Jacobson

you could say we are one of the most boring countries in the world after Switzerland", he quips.

But much of his time is spent trying to convince the doubters in the West that Finland is not some kind of northern Yugoslavia or Soviet satellite. As Jacobson puts it: "The survival of Finland after the Second World War was regarded in the West with the embarrassed disbelief with which families sometimes greet the return of a soldier who has been reported missing in battle and presumed dead."

Indeed, Finnish independence from Moscow at the beginning of the Cold War was regarded either as an illusion or a "ruse to deceive and confuse the Western democracies about Soviet real intentions. Finland's refusal to accept Marshall aid appeared to confirm such suspicions and so did the 1948 Friendship Treaty with the Kremlin, which continues to govern trade relations between the two countries.

Helsinki's silence over the Soviet suppression of Hungary in 1956, the Warsaw Pact occupation of Czechoslovakia in 1968 and the Soviet invasion of Afghanistan in 1979 have all helped to fuel doubts in the West from time to time. Nor were the Finns vocal in their criticisms of the Chernobyl disaster two years ago.

But then Jacobson argues that the Finns have denied themselves "the luxury of making emotionally satisfying gestures" and he goes on to point out that they did not express any criticisms of the Americans during the Vietnam war. He likes to quote Marshal Mannerheim's words at the end of the Winter War: "We have paid our debt to the West to the last drop of blood".

Few Finns actually believe that a day might arrive when the Red Army marched into their country but they see no reason why they should cock a snook at the Kremlin just for the hell of it.

In an unsentimental and hard-headed way, Finland has preserved its democratic values and territorial integrity through a special relationship with the Soviet Union that is not one of being a supplicant. "The truth is that the Soviets have accepted for the past thirty years that Finland is part of the western economic world", argues Jacobson. Indeed, they have often put that fact to their own good use.

Sitting in his book-lined office in Helsinki, he reflects the calm, pragmatic consensus that has come to dominate Finland's internal affairs. "We are gaining in self-confidence", he claims, pointing to the country's impressive growth rate and its new high standing within the Nordic area.

Certainly the urbane Jacobson should have no difficulty in reassuring his western business audiences that Finland's cautious restraint does not reflect any craven submission to crude Soviet pressure but a mature recognition of its own enlightened self-interest, born out of the Second World War when the country's very life was in peril.

Robert Taylor

FINNISH-SOVIET TRADE

A modernising deal

TO MOST Finns the visit to Helsinki by Mr Vladimir Kamentsev, the Soviet Vice-Premier, in mid-September seemed just another routine meeting to discuss the huge trade imbalance.

As it turned out, the talks were the most successful for years. The two parties agreed to "modernise" the whole trading system between the two countries, long based on barter, by introducing arrangements to correct structural deficiencies and provide for the use of hard currencies and credit.

In the era of increasing competition in the West and glasnost in Moscow, the barter trade principle to which Finland and the Soviet Union have adhered to since the late 1940s has been proving increasingly inflexible and outdated. The new agreement will not kill the old principle, but will provide it with good crutches.

The main problem affecting bilateral trade throughout this decade has been the massive trade surplus Finland has accumulated as a result of low value of oil imports from the Soviet Union.

In theory, exports should always balance imports but neither party was willing to cut Finland's exports to Moscow when oil prices began to nosedive. Nor were there additional imports from Moscow to be found. As a result Finland's surplus grew to FM5bn ($1.1bn) this summer. As no money changes hands in barter trade, the surplus is a bookkeeping figure only. The Bank of Finland gets clearing roubles from Finnish exporters and pays them in Finnmarks. An importer of Russian products buys clearing roubles from the central bank with Finnmarks in order to pay the Soviets.

The only payments that actually cross the border are payment orders which shuttle between banks. So, the Bank of Finland has to shoulder the financing costs of the surplus. And since the beginning of this decade the total interest losses suffered, because of Finland's export success, has amounted to FM1bn ($225m).

The new agreement will, first of all, set a limit on the trade surplus of 100m roubles ($160m) either way as of January 1, 1990. If the surplus grows above that level up to 200m roubles, the other side pays "market interest rate" on the difference. Furthermore, if the surplus grows further still, as it has done regularly in the past few years, it must be cut down by paying hard currencies on a quarterly basis.

The current level of maximum interest free surplus is 300m roubles. On the top of that Finland has a surplus of 200m roubles on special account on which Moscow pays a 6 per cent interest.

The agreement also provides for credit to finance exports of investment goods, such as machinery and construction projects.

The state-owned Finland Export Credit has already granted the Soviets a 300m rouble credit for buying Finnish goods. This will alleviate a backlog of signed contracts that have been held by Finland's Licence Bureau.

Not all the consequences of the agreement are necessarily good for Finnish companies. While Finns don't have to worry about the heavy non-interest surplus, on the other hand, loans, denominated in roubles and carrying market interest rates, pose a new kind of a financial risk for Helsinki.

Then, the credit facility may open new opportunities for Finnish exporters but it also exposes Finnish companies to greater international competition. Seen from Moscow a Finnish company will then be just another Western competitor offering Western financing packages.

Finnish industries are well aware of this and have therefore urged trade negotiators to retain the old principle which guaranteed a certain number of orders from the Soviet Union annually.

And last, the new arrangements may well make dealing much more flexible but it does not necessarily increase the overall volume of trade. The Soviet Union's share of Finland's external trade has dropped from 26 per cent in 1983 to 13.8 per cent during the first half of 1988.

Meanwhile the value of trade plummeted from FM38bn in 1983 to FM26bn last year. Some 80 per cent of Finland's total exports from the Soviet Union consists of oil products. With prices on a constant slide, the bilateral trade agreement probably cannot accommodate an increase in volume in the future. And, with the surplus limit cut down, the Soviets will have to use a substantial amount of hard currencies if the two countries are to increase their trade volume. This, of course,is unlikely given Moscow's constantly declining hard currency reserves.

The two countries have tried to find other ways to offset the trade problems. Finnish-Soviet joint venture companies in the Soviet Union have multiplied during the past couple of years and they now range from a huge diesel engine factory near Leningrad to two hamburger stands outside Leningrad's main tourist attractions.

More often than not, it is Soviet officials who try to attract Finnish partners to engage in joint ventures. Soviet glasnost is clearly visible in Finland in the shape of joint venture approaches to local businessmen. One of the most recent feelers was for a jointly-run "Silicon Valley"-type, duty free, high technology village in the Saimaa Kanal area between the two countries.

Finns are generally happy with the new agreement. It should bring trade between the two countries more into balance and make it more "Western". Clearly, Helsinki and Moscow now see very much eye to eye on trade.

At the signing ceremony in Helsinki, Vice Premier Kamentsev left his speech in his briefcase. He didn't ask for it but simply stated: "I don't have the written speech with me but it doesn't matter. I will fully agree with what Kalevi Sorsa (Finland's Foreign Minister) will say, anyway".

Olli Virtanen

THE ECONOMY

In sauna condition

THE CURRENT state of the Finnish economy can be likened to a sauna. The benefits can be considerable when it is overheated but if you indulge for too long it can damage your health.

Finland is enjoying a spending boom with consumer goods and travel attracting the lion's share of expenditure. As a consequence inflation has accelerated rapidly during the past twelve months followed by a sinking current account deficit.

The "happy consumption spree", as Governor Rolf Kullberg of the Bank of Finland dubbed it, is the most serious threat to the country's economy during the 1980s. The central bank, the government and the Finnish industry all realised the bleak prospects and, together with the central labour unions, managed to agree on a comprehensive stabilisation package in early September.

The basic target of the agreement is to limit nominal wage increases next Spring to 1 per cent while the government aids the settlements with tax concessions, so that real wage increases, after inflation, averaging 2.5 per cent.

Even the Bank of Finland chipped in a concession. In an unprecedented announcement Governor Kullberg promised that the base interest rate will be lowered from 8.0 per cent to 7.5 per cent at the beginning of January, providing individual trade unions join the agreement.

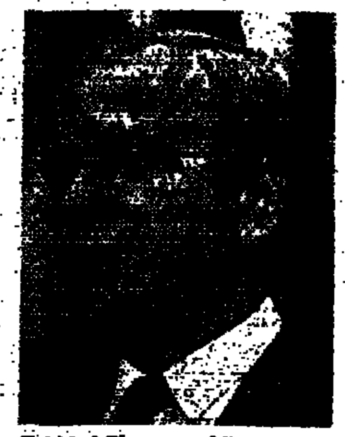
That is a big "if". A number of larger unions have refused to sign the package, notably in the pulp and paper industries, which are enjoying an export boom and could afford higher wages for shopfloor peace.

Mr Erkki Liikanen, the Finance Minister and mastermind behind the stabilisation package, has now extended the deadline for the unions' agreement to November 15.

While demanding moderation from the unions the government produced a highly "stimulative" budget for 1989. The total expenditure will amount to FM124.2bn, representing an increase of 5.5 per cent in real terms, far above the expected wage and price increases elsewhere.

In addition experts question the timing of a planned major tax reform that will substantially cut income taxes. The emphasis, they argue, should be in reducing consumption.

Rolf Kullberg, Governor of the Bank of Finland



Erkki Liikanen, Minister of Finance

For the best part of this decade, Finland's economy grew by an average rate of 3 per cent annually. But during the past two years the situation has deteriorated rapidly.

A combination of factors is to be blamed for the downturn. The gradual deregulation of the country's monetary policy has enabled the banks to adopt liberal lending principles. Together with generous wage settlements, and tax concessions last year the freely available credit produced an explosive mixture.

Consumer prices began to climb. At 3.7 per cent in 1987 Finland's inflation began to pose a threat to the country's competitiveness in international markets. This year, the government estimates that inflation will reach 5.5 per cent. GNP will grow by 4 per cent this year but the pace will slow down to 2 per cent next year.

Even more worrying is the current account deficit. It is expected to sink from FM9bn this year to as low as FM15bn in 1989 and, if the pace cannot be stopped, on to FM20bn in 1990.

A deficit on invisible trade constitutes the bulk of the current account deficit. Finns travel more and more abroad while the number of tourists and other visitors to Finland is increasing at a slower pace.

Another major component in the deep balance of payments deficit is debt service on foreign loans. Finnish banks and companies actively borrow from abroad where comparable interest rates are more than 2 percentage points lower than in Finland. Hence, the central bank's currency reserves have swelled to record levels during the past couple of years increasing interest payments to foreign lenders.

The trade balance was FM900m on the black at the end of 1987 but the surplus is shrinking steadily. Trade with the Soviet Union has declined dramatically during the past five years. The loss has largely been offset by gains in western Europe, notably pulp and paper. But imports are threatening to wipe out export gains.

Finns may have to live in this overheated economic climate well into 1989. The industry expects a downturn sometime next year. The main emphasis will be in keeping wages in check, and that is no small order. Used to the Sauna, many Finns may not be willing to sacrifice the current heat for a more temperate future.

Olli Vertanen

Helsinki stock exchange: prices have started to sag as ...

State groups go for listing

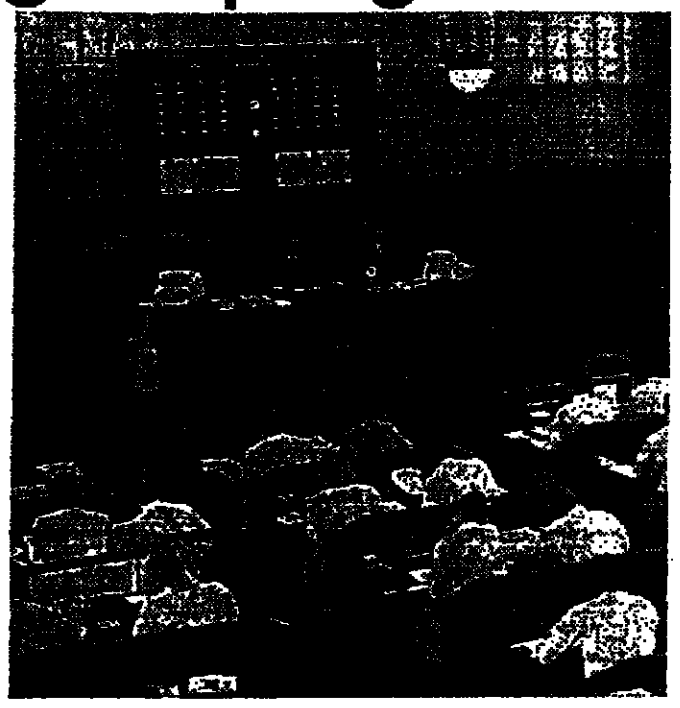
FINLAND'S STOCK market is currently full of confusing signals. The Helsinki Stock Exchange (HSE) bounced quickly back from the October crash 12 months ago but recently the prices have taken a dip and the trading volume has declined dramatically.

The main reason has been the tax reform which placed an extra burden on companies and investors alike. The budget for next year will scrap a number of allowances the companies used for minimising their tax burden. Meanwhile foreign institutions have largely abandoned Finnish securities.

On the other hand the market has seen a flood of new issues. By mid-October, they amounted to about FM13bn, almost double the last year's record of FM6.4bn. Many of the issuers were companies aiming to be listed on the HSE and particularly on its OTC list which has doubled in length this year.

The investment boom on the securities market may well be good for the economy as a means of vacuuming up excess liquidity, but it also reveals unhealthy symptoms.

Helped by generous bank lending the issues were often subscribed dozens of times over but when listed on the stock exchange the turnover of the shares has often proved to be minimal. Now, the new share issues threaten to depress exchange prices on the market. Many analysts believe that the total value of new issues ought not to exceed 10 per cent of market capitalisation and that limit has just about been reached – and prices have already started to sag.



Helsinki stock exchange: full of confusing signals

Although many of the newly-listed companies are small they also include some interesting entrants, notably state-owned companies which the Finnish government has allowed to raise capital on the stock market for the first time. First among these to launch an issue was Valmet, the metal and engineering group, which raised FM760m through a new share issue aimed at domestic investors. The issue consisted of 20 per cent of the company's share capital but only 80 per cent of it was subscribed by private investors; the remainder ended up in the vaults of Kansallis-Osake-Pankki and Postipankki, the leading commercial banks.

The next state-owned company to come to the HSE will be Outokumpu, the base metals group, which plans a listing for the shares it gave to 6,200 employees, in exchange for bringing their generous pension rights to the "normal level". The total of 18.9m shares equals 25 per cent of the company's share capital.

The Finnish government, unlike those in many other countries, is not willing to shed control of its industrial groups. Neither does it sell existing shares. Rather, it aims to ensure that state-controlled companies can raise capital on equal terms with privately-held companies.

Another interesting new company on the HSE will be Skopbank, the Finnish savings bank group, which raised FM495m in September. The issue was subscribed four times over in 1¼ days. What makes the share worth watching is the fact that Skopbank and particularly its own portfolio managers are generally regarded as the most aggressive players on Finland's capital markets.

The stock market has been in a period of lull during September and the early part of October but analysts argue that the fundamentals of the Finnish economy and the outlook for listed companies is still fairly positive. Even the effects of the tax reform, which will put a squeeze on companies, should not have a major permanent effect on the stock prices.

Olli Vertanen

PROFILE: ENSO-GUTZEIT

World perspective on paper

AS FINLAND'S leading forest products group Enso-Gutzeit has seldom had modest goals.

Three months ago Enso announced that it will form a joint venture pulp mill with Soviet partners in the eastern part of Finland. The Soviets would have a 20 per cent stake in the FM2bn ($450m) project to produce 485,000 tonnes of pulp annually.

The announcement was soon followed by a similar plan to establish a jointly owned 200,000 tonne newsprint mill in Soviet Karelia. The project was estimated to be worth FM1bn with the Finnish share to be set between 20 per cent and 40 per cent. Later, however, the project was buried, reportedly because the Karelian officials couldn't agree on it with Moscow.

Meanwhile the Finnish forest products group is actively seeking new partners in Canada for liquid packaging board and special newsprint production and even contemplating to have a subsidiary listed in a Canadian bourse. Enso is also poised to buy a minority share in a Brazilian pulp mill–to secure a short fibre eucalyptus supply for its paper mills in Finland and elsewhere. Mr Pentti Salmi, chief executive of the company, envisages Enso becoming "a multi-domiciled group producing 'Enso quality' products anywhere in the world".

Enso-Gutzeit was Finland's largest forest products group in 1987 with net sales of FM8bn ($1.8bn). It had 28 mills and factories in Finland and five abroad. Western Europe accounts for 75 per cent of its exports. The total paper and paperboard production reached 2.4m tonnes, including some 800,000 tonnes in newsprint and other publication papers. (Most of the pink FT newsprint comes from Enso's Varkaus mill).

Pentti Salmi of Enso-Gutzeit

Enso has been transformed over the past decade into a well-run, profitable and fast-growing pulp and paper group by doggedly pursuing a goal of concentrating on more and more value added grades. But then it needed to. For most of the 70s, the state-controlled group turned in a loss – and became a laughing stock of the nation.

Having acquired a new top management, Enso unloaded its heavy cost structure and sold off its non-forest businesses. Kraftliner and other "low tech" bulk products were abandoned as the group invested heavily in higher grades. Today Enso makes practically no brown papers in Finland and most of its products, such as liquid packaging boards, newsprint, laminating papers and fine papers are among the most advanced in the business.

It is fair to say that the chosen strategy was the only viable option. Finland's high labour, energy and raw material costs could hardly support production of bulk products. As Salmi puts it: "an investment in a new standard newsprint mill, for example, would not be profitable in Finland anymore".

Cost reduction was one of the prime motive behind Enso drive to establish joint ventures with the Soviets. The other was concern about raw material supply. Enso, which has most of its pulp and paper mills in the south-eastern part of Finland close to the Russian border, has for years sought to increase wood imports from the neighbouring country.

The state owns 50.3 per cent of Enso's shares and controls two thirds of the votes. Although a listed company, Enso often finds itself hamstrung by the government's unwillingness to increase its share capital. This year the state provided Enso with FM90m in new share capital but at the same time Enso paid the state FM50m in dividends.

The net difference of FM40m compares with the group's total investments of FM1.5bn this year. On the other hand Enso successfully raised a total of FM500m through rights issues both in Finland and on international capital markets earlier this year.

Mr Salmi makes no bones about his wish to dilute the state's share below 50 per cent. That would put the group on the same footing as its privately-owned competitors on the Helsinki Stock Exchange. Many observers believe that Mr Salmi's wish may well become reality in a few years time.

Olli Virtanen

Shipbuilding is still suffering financial losses, not least because of EC subsidy policies but . . .

Shipyards look ahead to better times

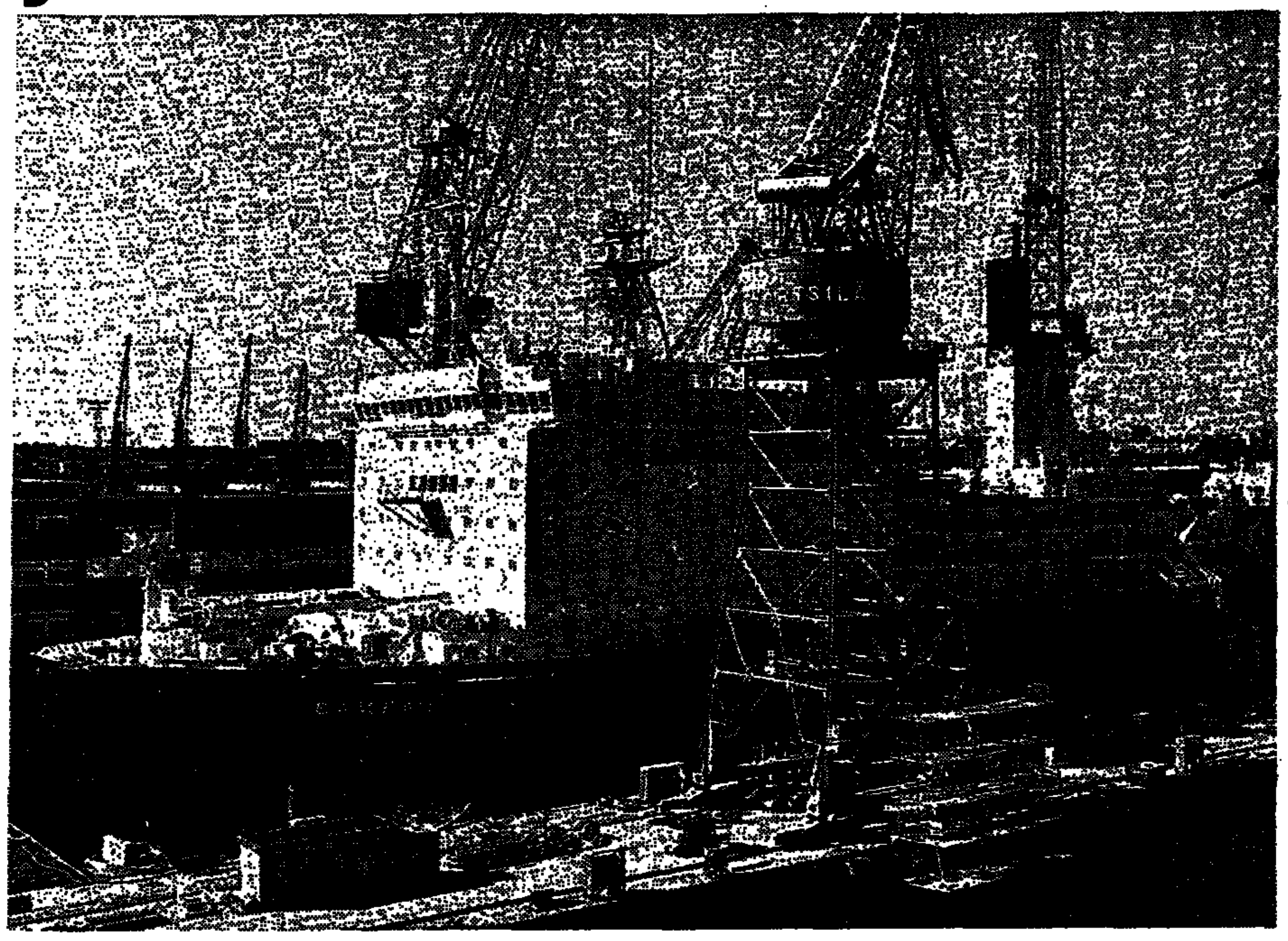
AT THE beginning of the 1980s, Finland had four independent shipbuilding companies, all of them profitable. Today there are three and all the yards operate at a loss.

The shift sounds dramatic, but to a certain extent it has been manageable. No company has gone bankrupt and none is in immediate danger of doing so. While the companies have closed a number of yards and cut their combined workforce from 18,000 in 1982 to 11,500 today, this has not resulted in large scale unemployment. In fact, a brighter future may loom just around the corner.

The biggest blow has been a lack of orders from the Soviet Union which traditionally accounts for almost two thirds of the output of the Finnish yards. During the past 18 months no company has received any new orders from Moscow.

That is largely the result of the imbalance in bilateral trade. Exports to the Soviet Union have been put on hold as the value of oil imports has declined.

Consequently the Finnish yards have been forced to trim their operations. Wärtsilä Marine, the company that now encompasses the former shipbuilding operations of Wärtsilä and Valmet, has shut down two yards. Rauma-Repola, meanwhile, has decided to concentrate its shipbuilding operations on only one yard and fired 600 workers in the process.



Wärtsilä shipyard, Helsinki: an atomic icebreaker, being built for the Soviet Union, nears completion

Wärtsilä Marine's net sales last year totalled FM2bn and its losses amounted to FM205m. Rauma-Repola's shipbuilding and marine technology division reported net sales of FM1.2bn and its losses, which the company does not disclose, is estimated to be around FM200m. Hollming, Finland's third shipbuilding company, reported net sales of FM520m in 1987, down by 22 per cent from the previous year. Loss before appropriations and taxes dipped to FM36m.

During the first half of this year the situation turned bleaker still. Wärtsilä has reported that its Marine subsidiary suffered a loss of FM388m in January-August on sales of FM1.8bn. Rauma announced that work at its shipyards will end in August 1989 if the company does not get any new orders.

As an exception Hollming reports that its yard is fully employed till February 1989. New orders, of course are the first priority, but the companies are also worried about the prices depressed in the increasing competition. Much of the losses stem from the fact that the shipbuilders have taken orders at rock bottom prices. Unlike the EC countries, which are allowed by Brussels to subsidise shipyards by up to 28 per cent of the export order, Finland does not give aid to the shipbuilding companies.

If the present situation looks full of gloom and doom, the companies themselves and many analysts remain optimistic. To start with, the recent negotiations between Soviet and Finnish trade officials have introduced hard currency credit into bilateral trade between the two countries. More specifically, Finnish loans to the Soviet Union are planned to aid Finnish capital goods exports irrespective of the trade imbalance.

Shipbuilders now expect the credit negotiations to open the gate to new orders before the end of this year. That would probably alleviate the problems at Rauma-Repola and also Wärtsilä Marine.

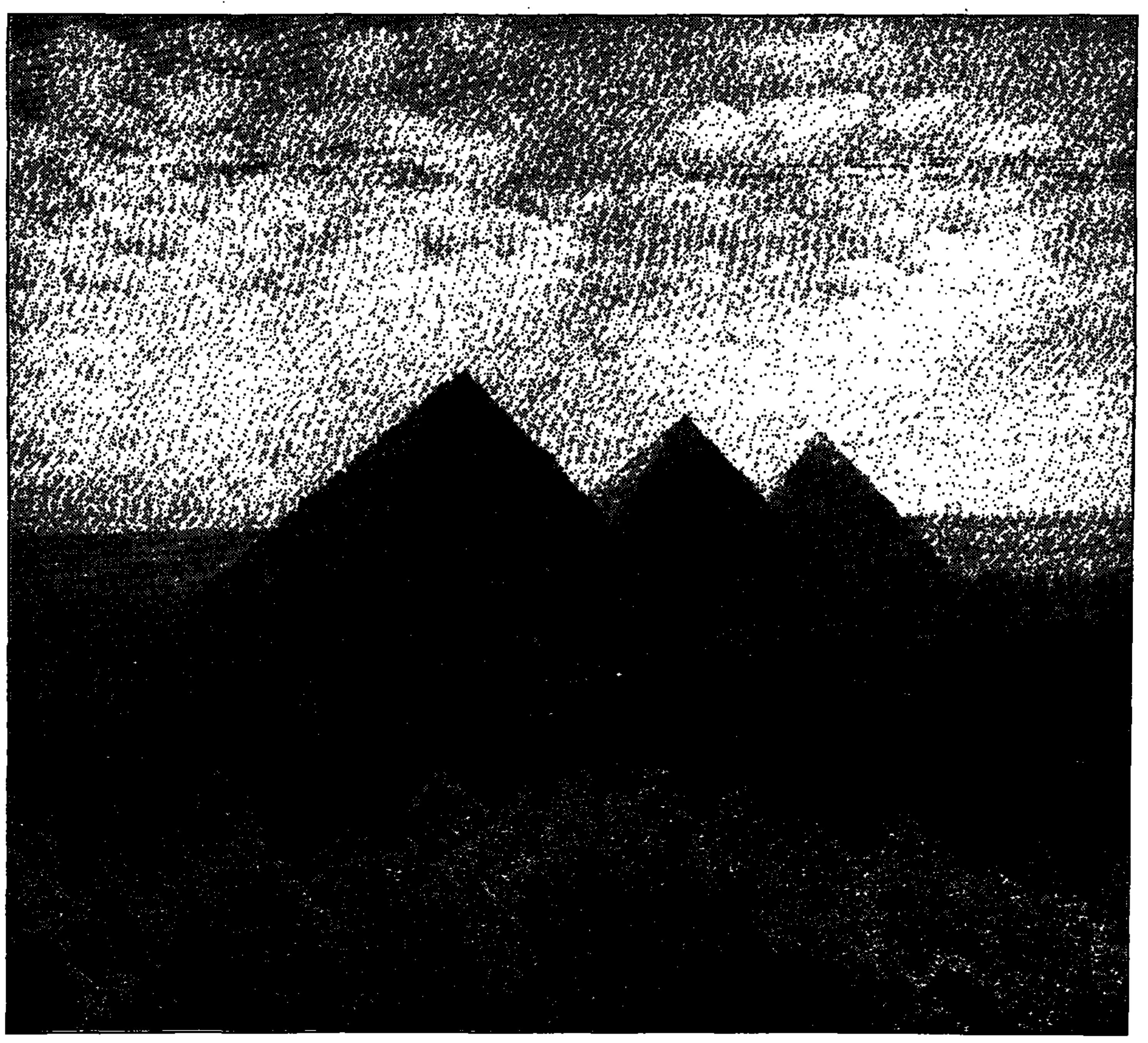
At the same time all Finnish shipbuilding companies see a brighter horizon also in the West where the shipping recession is gradually receding. Wärtsilä Marine has already enjoyed the first stage of a mini-boom in passenger vessels. The company, which is the world's leading builder of luxury cruise liners, currently has 8 passenger ships and two cruise liners on its order books worth a total of FM9bn.

Providing that the stream of Soviet orders is switched on, the Finnish yards will probably maintain their current positions, at least in the medium term. One of the biggest problems now, ironically, is the lack of skilled labour. Wärtsilä is already hard pressed to find 600 qualified workers for its yards while Hollming would employ 100 workers right away if it found competent ones. Another major problem continues to be the price levels required to win new orders. Finnish shipbuilders continue to demand that the EC stops allowing subsidies altogether.

Olli Virtanen

KEY FACTS

Population	4.8 million
Area	338,144km
GNP per head	11,420 US dollars
GDP for 1987	Finnish marks 394bn
TRADE	
Exports for 1987	FM99bn
Imports for 1987	FM98bn
Current account balance	FM -8.5bn
Consumer price index for 1988	5.25 per cent
Earnings index for 1988	9.00 per cent
Unemployment rate for 1988	4.8 per cent
Net foreign debt as % of GDP,1988	15.5 per cent
Budget deficit for 1988	FM1.8bn



PROFILE: KARI KAIRAMO

Nokia's euro-optimist

MR KARI Kairamo, chairman of Nokia Corporation – Finland's biggest industrial company – for the past eleven years, is thinking more than ever European nowadays. Indeed, he has even decided to move some of the company's key decision-making into a *headquarters in central* Europe.

The prospect of the 1992 free internal market in the European Community does not worry him. Indeed, he regards it as an opportunity rather than a threat to Nokia's future, declaring his enthusiastic support for open capital and labour markets in Finland.

"We need to come as close as possible to EC rules and directives. Of course, it is a waste of time talking about Finnish membership of the EC but I am very confident that we can create a European economic space. I am a Euro-optimist," he says.

"We should not be afraid of joint European decisions. Most of the big companies in Europe are still very nationalistic but this will change during the 1990s."

Kari Kairamo of Nokia

Mr Kairamo's business internationalism is nothing new. He has spent much of his business life in the world outside Finland. After graduating with an engineering degree from Helsinki University and spending a few years with a company in Finland, he was sent as planning engineer for the Metex Corporation to Poland in 1962.

This was followed quickly by a short stint for the company in its Brazilian office in Sao Paulo before he moved onto the US. His North American experience in the 1960s with Madden's, the paper machine company turned out to be crucial in his career development.

He says those years were "the most rewarding time of my life". Like other businessmen from the Nordic area before and since, he thrived in the cut and thrust atmosphere of the American business scene. His rolled-up sleeves approach and disarming informality derive from his years selling paper machines across the US from a small New York base in the Rockefeller centre.

Kairamo returned to Finland when he joined Nokia in 1970 as the company's foreign affairs vice president. Thereafter, his promotion to the top was rapid and he was appointed chief executive in 1977 at the age of 44.

The middle 1970s were a vital moment in Nokia's development. "In the aftermath of the world oil crisis we had to decide whether to cut back or grow by becoming more international," says Kairamo. "Of course, Finland has always been dependent on foreign markets. And I have always believed you must integrate with your customers".

Under his dynamic leadership, Nokia has grown into an impressive multi-industrial international enterprise, though its profits have dropped sharply so far this year, mainly because of an expensive restructuring of the company and the cost of a number of recent large acquisitions.

Around half the company's 44,000 employees work outside Finland now, mainly in Sweden and West Germany. During the eighties Nokia has made deep inroads into a variety of product markets, becoming Europe's third largest colour television producer, and one of the world's leading manufacturers of cellular mobile telephones as well as producing cable machinery and digital telecommunications systems. It also now happens to be one of Europe's leading soft tissue producers and manufactures rubber tyres as well as footwear.

Inside the Nordic region, Nokia is now an industrial colossus to be reckoned with, a prominent example of Finland's business success story in the 1980s. But it is also very much a European Community company as well, participating fully in the Eureka and Esprit programmes. Kairamo's grand business design looks far ahead of much of Finnish industry and public opinion. "We have changed a great deal in the past 15 years," he says. "We will change even more in the next 15. You can never stop but you must renew all the time".

Over the short-term Kairamo wants to consolidate and strengthen Nokia's existing market position in western Europe. "We only cross the oceans when we have something specific to sell," he argues; though he is pleased to see Nokia so strong in the US in sectors like mobile phones and cable machinery.

As a leading figure in the influential European Roundtable of senior industrialists, however, his perspective remains firmly based on continental developments. Yet Kairamo remains emotionally Finnish at heart. He likes nothing better than to relax on a bear hunt in the north of the country with his rucksack on his back, sleeping under the stars and he keeps fit by playing a Finnish variant of ice hockey called bandy.

But the pressure of work is never far away. Out in the wilds he always remembers to have a Nokia mobile phone with him to keep in touch with events.

Robert Taylor

Neutrality on the line

Continued from page 1

The fundamental question remains – just how far can Finland move in the EC's direction without placing severe pressure on its traditional foreign policy objectives? As Prime Minister Holkeri explained in a lecture last November to commemorate the memory of the country's legendary president Urho Kekkonen: "Finland has consistently avoided political linkages as an aspect of arranging her external economic relations.

"Our country has participated in economic integration only in circumstances in which neither the basic security and foreign policy solution that we have embraced nor the trust that has been accorded it has been placed in question".

In fact, Finnish policy-makers cannot afford to be concerned just with the EC movement to a free internal market. As always, they must keep a clear eye on other European developments that affect their own national independence. Ever since the Helsinki inaugural meeting of the Conference on Security and Co-operation in Europe, as long ago as 1972, Finland has played an active part in the international moves to ensure a relaxation of tension and the development of detente between East and West.

This remains a key element in Finnish foreign policy. In the national debate on the country's future direction due to begin next month, no Finn can really afford to ignore the traditional tenets of their country's policies that have given them a genuine prosperity and fiercely protected security since the Second World War.

Robert Taylor

The Plantagenets

Royal Shakespeare Theatre, Stratford

The Royal Shakespeare Company season in the main house at Stratford-upon-Avon at last finds a focus and identity in this three-play cycle adapted from the *Henry VI* trilogy and *Richard III*. The new titles are *Henry VI*, *The Rise of Edward IV* and *Richard III, His Death*.

The nine-hour blockbuster was performed as such for the first time on Saturday and was received with approbation and flying bouquets. I felt that Adrian Noble's production, having started magnificently, dwindled by the hour and limped to a halt along with the psychopathic Crookback.

There is no re-writing as there was in the RSC *Wars of the Roses* in the early 1960s; the editorial contribution of Charles Wood is a conventional condensation of the prentice plays, *Henry VI Part 2* suffering most, and some minor shuffling of speeches, notably Gloucester's first great soliloquy in *Henry VI Part 3* ahead of Henry's flight from Scotland.

The emphasis is on the rise of the House of York, David Calder's grandiloquently leonine Richard Plantagenet yielding the unstable reigns of Edward and Gloucester before the onset of the Tudors. There is no intellectual patterning of the events as there was in both the Hall/Barton cycle and the recent English Shakespeare Company version which climaxed in the onset of a television age democracy.

Anton Lesser, who shot to prominence ten years ago as a baby-faced Gloucester in the Terry Hands' complete *Henry VI*, now follows the Ian Holm trail to Richard with "Now is the winter of our discontent" delivered half as a public speech to Edward's court, half as a malevolently twisted soliloquy. This is the modern, warped ironist and political deviant, unrelated to Antony Sher's leaping bottled spider with antennae-like crutches. Sher bared his hump, Lesser his withered hand while seeing off Hastings.

Lesser is not funny but he is intermittently chilling. He wears a medical left boot and a shoulder hump to which he clamps an armour piece that is half stuck porcupine, half coal scuttle. Richmond's lance at Bosworth goes clean through the hump and shield. But the performance is not yet clinchingly complete and it shares the current serious RSC malaise of sloppy articulation. Lesser lets too many lines die in his mouth, and there is no upward lift to slice out the metre.

Ralph Fiennes, infallibly audible, is an outstanding Henry VI, less the tearful saintly hermit of David Warner, more the wryly pained victim of political circumstance. *When he lets the lords* frame David Waller's juicily imposing Gloucester, you feel, with him, that all is lost. *However, other big resonant roles* like Warwick and Buckingham are seriously underpowered.

The other major occupation is Penny Downie's of Margaret of Anjou. Sleek and slinky in dresses of rubbery silk and crushed velvet, her infatuation with Suffolk (Oliver Cotton) is electric, their separation a sexual disaster. She hardens and ages into the vengeful sadistic battlemonger of the second and third *Henry* plays and still commands stage centre as the cursing revenant of *Richard III*.

The lamentations of the last

Alastair Muir

Blockbuster trilogy: The Plantegenets, at Stratford-upon-Aven

place are notably done by Miss Downie, Marjorie Yates's Duchess of York and (the only other first-rate performance) Joanne Pearce's Queen Elizabeth. Women and children, shawled refugees of the dynastic fall-out, are seen homeless in the falling snow. The glorious sun of York has been eclipsed by a huge serrated black disc. Richard's dreams are troubled at Bosworth by ghosts, a surreal gardenscape of bleeding statuary, most striking until the effect is ruined by movement.

At least here the brilliant visual coherence of the first play is revivifying a spectacle that has in fact slumped into very nearly an inert old-fashioned costume parade, with far *too many heavy velvet cloaks* from stock and a terrible plethora of bad wigs. If I had been Jack Cade (Oliver Cotton again) I would have gone along with cheap beer and death to all lawyers but I would also have banished all RSC wigs, starting with my own.

Even Joan of Arc (Julia Ford), who quite unjustifiably gets to sleep with the Dauphin, has a lousy wig but at least in the first play the Noble and designer Bob Crowley combination is seen at its very best. There is fluency in the French scenes unmatched elsewhere. The grilled stage floor filters rising steam like the streets of New York. The heraldic cloths of the English court and the *bright definition of the Temple* Garden plucking of roses on a golden bough, give way to a forest of golden thunder sheets, stencilled with the fleur de lys. Ladders scale the skimpy bulwarks at Orléans and the actors are let loose like trainee Marines, using all parts of the theatre, side exits and a turreted gantry.

Ideas abound. When Joan dies, her hands are stigmatised, and the fiends who surround her are the English half-dead, including the spiked dog Talbot (Robert Demeger) and his son. The death of Beaufort (Anthony Brown), his body bled with leeches, confirms Henry in his saintly intimations of mortality.

Invention then starts to flag, and the bittiness of the second play is never overcome. The Kentish uprising and the Simpcox phoney miracles are done with little joy, flair or humour. Surprisingly for the RSC, there is little sense of a nation in turmoil. Cutting the Horner scenes and the *Part 2* conjurations for the sake of half an hour does not help.

Consistent throughout, rather, is a healthy relish for the gory, with some wonderful severed heads, a forest of them swaying on tall poles above Jack Cade, and showers of blood greeting the demise of Clarence (David Morrissey).

Michael Coveney

The World in the Evening

COVENT GARDEN

At the latest of the "Garden Concerts" on Friday, the Royal Opera House Orchestra under Bernard Haitink played the first of the works specially commissioned for the series by the David Cohen Family Trust. This is an admirably enlightened policy but in itself no guarantee of success.

Which is what made the beauty, eloquence, and profound impact of Nicholas Maw's *The World in the Evening* doubly satisfying in themselves, and as a rare example of entrepreneurial virtue rewarded. Maw's half-hour orchestral nocturne and the Christopher Isherwood novel share a title, but nothing else: the composer has used it to indicate the atmospheric ethos, a world poised between night and dawn, sleep and waking, meditation and subconscious fantasy, which the work is intended to evoke. The shape is clear – in simplified terms, two Lullabies, one at either end of Maw's arch-form, between which lies a sharp-toothed, fast-moving central Fantasia.

Like Britten, Maw possesses the innately musical gift of finding the most natural-seeming musical gesture – in this case, the Britten-ish lulling figure that opens the work – and then pursuing its implications in forms and sounds that are at once stringently argued and immediately appealing. There is a streak of English Romanticism (in the Purcell-like titles, in the soft, string-vibrant, wind-and-horn-cushioned textures of the introductory paragraphs) that also stamps Maw as a Britten descendant.

But as ever, his musical idiom, with its melodic sensuousness, and its wonderfully musicianly (the repeated use of the adjective cannot be avoided) balance of tonality and chromaticism, owns also its European influences. A sharp Stravinskyan cutting edge shapes the welling disturbances of the Fantasia and everywhere, but particularly in the second Lullaby, a Mahlerian bitter-sweetness enlarges the emotional range. This is the music of a composer mature in more than technique.

It was impressively played by the orchestra (who repeated the programme on Saturday at Covent Garden and last night at the Norwich Festival), although the theatre acoustics still tend to dull the wind and brass presence.

Maw was followed by Mahler's Five Rückert Songs, with Margaret Price's voice and artistry in incomparable form, and a Dvorak Eighth superbly poised by Haitink between bucolic good humour and dramatic intensity.

On this evidence the "Garden Concerts" innovation is a big success.

Max Loppert

Simon Boccanegra

COLISEUM

David Alden's conception of *Simon Boccanegra* did not convince Max Loppert when it was unveiled last year and English National Opera's first revival of it, strongly cast, brings only a little more illumination. Unless the hints are too subtle for me grasp, the historical transposition of Verdi's 14th-century Genoa is unspecific. We are back in Alden-land, for which designer David Fielding conceives everything in stark primary colours (red, white and black in this case), where man keeps himself alive by bestial acts, any cruelty is justified in the name of totalitarianism.

There are no chainsaws in *Boccanegra* but dinner suits and swords (a veritable grove of them at one point, impaled Berghaus-like), trench coats and some unlikely chainmail. Yet the stylistic excursions are less intrusive than in previous productions from this team and stricter stage discipline governs much of the action. The absence of any poetry in Alden's working-out is a serious flaw in a work which moves constantly between personal commitment and public action – its stark directness and lack of ambivalence somehow jars against the implications of Verdi's score. But if one can resist the inevitable temptation to "fix" the action in a specific historical niche, and is able to tolerate the mismatches, the force of the work emerges strongly.

That is in part at the least the consequence of having a first-rate cast, which has been thoroughly rehearsed for the revival. Among the protagonists only Janice Cairns remains from the opening run; her Amelia is affecting, although on Friday she began hesitantly. Malcolm Donnelly is the new Boccanegra, never dashing but a leader who substitutes charisma with industry, and the same characteristics could be applied to much of his singing, in which his declamatory effectiveness was never in doubt. There is a cadaverous Paolo from Steven Page, a very well observed portrayal, and he is excellently supported by Mark Richardson's Pietro.

However, the Fiesco of John Tomlinson dominates them all – the richness of his tone seems to deepen in every London appearance – and his immaculately stressed singing and the simple dignity of his characterisation compel constant attention.

A high proportion of the text, James Fenton's purposeful translation, is audible. The orchestra was sometimes too loud (Miss Cairns was the main victim) and Mark Elder's approach seemed fast and furious, with sudden lapses into almost prosaic rhythm. Still, the unevenness could right itself, however, and the revival could then settle into a fascinating if ultimately puzzling experience.

Andrew Clements

Ingus Peterson, the young Latvian tenor who was the star discovery of the 1987 Wexford Festival, has taken over as Alfredo in the new ENO *Traviata*. His enunciation of English is passable, not yet always forwardly focused in this large theatre, and his acting sympathetic but still somewhat loose and generalised. In spite of all this, Mr Peterson proves one of the happiest of recent additions to the company roster.

He certainly adds a mitigating note of warmth to the hard, "critical" stance taken by the David Pountney production. No-one appeared to have a good word to say for this *Traviata* after its opening night last month and so it is with surprise that I admit to having found Saturday's performance wholly compelling on its own (by no means unobjectionable) terms.

Max Loppert

The view from Zanzibar

Colin Amery at the Aga Khan seminar on Third World housing

There was something extraordinary about the sight of some 50 international experts gathered in the heat of the island of Zanzibar to discuss architecture with particular reference to third-world housing. They had been gathered and flown from the mainland under the umbrella of the Aga Khan Award for Architecture. This award is certainly the best of its kind in the world. Born ten years ago at a time when it looked as though oil money and western architects were about to cover Islamic countries with alien structures, it aims to link indigenous tradition to development.

The incongruity of a kind of architectural United Nations taking place in Zanzibar lies in the nature and condition of that troubled island. Zanzibar lies uneasily off the coast as part of Tanzania and revolutionary politics have almost fatally disturbed its financial and trading stability. The results of the recent unhappy past show most clearly in the condition of the fabric of the main urban settlement in the old Stone Town.

This was, until the revolution, occupied by Arab and Indian traders. It still has mosques and markets but many of the fine balconied houses with their brass-studded and carved doors are now filled by poor families of squatters. By the middle of the 1980s the whole town was in a ruinous condition.

Today, helped by foreign aid and a change of attitude on the part of the Tanzanian government towards a liberalisation of the economy, things are very slowly improving. There has been help from the UN, UNESCO, the EEC and the UK Intermediate Technology Unit. For three years the Stone Town Conservation and Development Authority has been encouraging the return of private owners willing to restore houses but a great deal depends on the ability of the government to rehouse squatters.

But Zanzibar is also an island with huge potential for well-organised tourism. There could be more lush fields of cloves and plantations of bananas; the city could be restored to emphasise the fact that Zanzibar has always been the cultural crossroads between the Arab, eastern world and black Africa. Souks, mosques and Persian baths are there for restoration along with balconied Indian-style houses and relics of the British protectorate. There could be beach hotels but the island today is a sad scene of decrepitude.

Zanzibar should look to the restoration and rediscovery of the Kenyan coastal town of Lamu as an example. The delegates were shown the work of the National Museums of Kenya and Unesco in this oldest living town in East Africa. The stone houses, narrow streets and fine waterfront date back some 500 years. Tourism could fundamentally alter its Islamic character and already there is, in my view, too much foreign influence. Inaccessibility may protect Lamu. The intrepid should go before it is spoiled.

It was not conservation but housing problems that focused the attention of the delegates. They were coping with life in a "modern" hotel that demonstrated daily the unsuitability of modern architecture to the tropics. Each day we passed through the long streets of concrete housing blocks recently built by the East Germans; alongside are the squatter settlements and the tin-roofed huts that accommodate most of the islanders.

The most useful contributions at the seminar came not from academics anxious to make scholarly or statistical points, but from delegates who work close to the problem. The President of Tanzania stressed the need to encourage modernity while protecting traditional roots. The delegate representing the Hyderabad Development Authority in Pakistan described his experimental approach to housing the masses, explaining the need for governments to provide land serviced by water and electricity where self-build housing can be erected and paid for in instalments that the poor can actually afford. There is a people's architecture that may not fit into any textbook or win any awards but it can be the basis of initial development.

This was the message of the seminar that came over most clearly. Architects, if they have a role in the solution of the problem of mass housing, must learn from the people they are asked to house. Tower blocks are not the answer for Zanzibar or Nairobi but they still appeal to politicians and architects because they offer visible and almost immediate results.

It proved easy to define problems at this international conference but at the end of the day questions rather than answers lay on the table. How can everyone have a house? Should professionals become "barefoot architects" living with the poor? Can the mass solution be evolved so that the individuality that is crucial to the nature of houses is preserved? How can the inarticulate mass explain their needs? Does design have a role when it comes to the emergency housing? How important are new materials and can indigenous materials be upgraded?

International seminars do not provide answers but it is important that the basic problem of providing shelter for mankind is shared and discussed. What emerged most clearly from the heat of Zanzibar was that third-world governments may not have the resources to provide houses but they can prepare and design the support systems for those who are working close to the poor.

FT Architecture at Work Award

Entries are sought for this year's Architecture at Work Award, which closes on November 18. Forms are available from the FT Press Office. The Award, made for an outstanding work of industrial or commercial architecture completed in the last two years, will be presented next Spring.

Trial of Prometheus

COVENT GARDEN

David Bintley's new ballet, given its first performance on Thursday, returns to the world of mythology which has already concerned him in *Young Apollo* and *Sons of Horus*. *The Trial of Prometheus* differs somewhat in its implications, though, for there seems an undercurrent of meaning which relates directly to the act of artistic creation quite as much as to the narrative of the hero's infusion of life into dull clay.

We first see Prometheus (Stephen Jefferies) in front of a vast pendant curtain. His aerily animated creatures (Fiona Chadwick and Simon Rice) are curled at his feet. The curtain rises, to reveal the gods assembled to put these beings to the test. Ares and Dionysus (Antony Dowson and Guy Niblett) mock their lack of human energy; Apollo and Hermes (Jay Jolley and Bruce Sansom) variously debate their clumsiness. Finally a dismissive Zeus (Derek Rencher) takes away their lives.

The action thus far is rather short-breathed, the style ingenious without seeming dramatically very potent. There is a handsome set by Terry Bartlett of a monolithic cream-coloured temple interior, adorned with key-pattern decoration, and costuming that – after the fashion of *Sons of Horus* – identifies each divinity most clearly by a head-dress.

The Olympians are seen as caricatures, stupid and mocking. They are unworthy judges, and Prometheus' riposte to them comes after Zeus has taken the life-force from the creatures.

It is at this moment that Mr Bintley's sympathies are declared. The creatures stir into life again; Prometheus turns in anger upon the judges and envisages the future of his creations, as they beget progeny and populate the stage (and the world). It is, of course, an implicit comment about the artist faced with criticism and the inimical codes of his society, and an assertion of his faith in what he does.

But the exposition appears somehow passionless, lacking in sharpness of language as of feeling. And there is an awful temptation – because of the way they are costumed in striated tights and with stringlike wigs, and because of poses they take – to understand that what Prometheus has created is the cast of MacMillan's *Rite of Spring*.

The effect of the piece is, in sum, muted, despite the craftsmanship and felicitous touches of the choreography. Stephen Jefferies, who could make a laundry-list dramatic, has little chance to show his mettle.

His two creatures are rather better served, and admirably impersonated by Simon Rice and Fiona Chadwick, albeit their dances are too often cast as purposely weak responses to the comments of the gods. These last have solos which find Mr Bintley at his most fluent as a maker of dance characterisation.

There is a commissioned score by Geoffrey Burgon which supports the action, and makes all the right noises without – at a first hearing – sounding more than efficient.

Clement Crisp

ARTS GUIDE

October 21-27

MUSIC

London

Beethoven Plus is a series of concerts between September 18 and December 10 which seek to set the composer's music in the context of his own time. Royal Festival Hall, Queen Elizabeth Hall, Purcell Room. (928 3191).

Vivaldi Festival. London Soloists Chamber Orchestra, English Chamber Choir, conducted by David Josefowitz. Queen Elizabeth Hall (Mon) (928 3191: cc 928 8800)

Halle Orchestra, conducted by Stanislaw Skrowaczewski with Vladimir Ovchinikov (piano). Tchaikovsky, Prokofiev, and Stravinsky. Royal Festival Hall (Tue) (928 3191; cc 928 8800)

Royal Choral Society, with the English Chamber Orchestra. Mozart, including Requiem. Royal Festival Hall. (Wed) (928 3191; cc 928 8800)

Monteverdi Choir, Silver Jubilee Season. English Baroque Soloists, conducted by John Eliot Gardiner, with Nigel Robson, Mark Tucker, Stephen Varcoe. Queen Elizabeth Hall. (Thur) (928 3191; cc 928 8800)

Paris

Cecilia Gasdia, soprano, Marcello Guerrini, piano. Mozart, Donizetti, Verdi, Rossini. Theatre de L'athenee. (Mon) (47426727)

Fine Arts Quartet. Debussy, Rachmaninoff, Beethoven. Salle Gaveau. (Tue) (45626971)

Ensemble Intercontemporain, conducted by Pierre Boulez. Messiaen. Theatre des Champs Elysees. (Wed) (47203637)

Ingar Soedergren, (piano). Mozart, Beethoven, Brahms, Franck.Salle Gaveau. (Wed) (45626971)

Orchestre de Paris, conducted by Herbert Blomstedt, Gil Shaham (violin). Weber, Mendelssohn, Nielsen. SallePleyel. (Wed, Thur) (45638873)

Frankfurt

Württemberg Chamber Orchestra and **Mstislaw Rostropovitch** (cello), conducted by Jorg Faerber. Haydn, Mozart and Respighi. Alte Oper (Fri).

BBC Philharmonic Orchestra and Dmitry Sitkovetsky (violin), conducted by Edward Downes. Mozart, Prokofiev and Tchaikovsky. Alte Oper (Thurs).

Amsterdam

Netherlands Philharmonic conducted by Gilbert Varga, with Cristina Ortiz (piano). Schumann, Schubert. Concertgebouw (Tue).

Netherlands Philharmonic, with the Royal Christian Oratorio Society, the St Bavo Boys' Choir and soloists. Britten, Mozart. Concertgebouw (Thur).

Peter Frankl (piano), Gyorgy Pauk (violin) and Ralph Kirschbaum (cello). Mozart, Brahms, Beethoven. Recital Hall (Wed) (718 345).

Utrecht

Netherlands Philharmonic Orchestra conducted by Gilbert Varga, with Cristina Ortiz (piano). Schumann, Schubert Vredenburg (Mon).

Rotterdam Philharmonic Orchestra conducted by Andrew Litton, with Andre Watts (piano). Beethoven, Vaughan Williams. Vredenburg (Thur).

Rotterdam

Ton Koopman, Bach organ recital. Doelen Recital Hall (Mon).

Netherlands Wind Ensemble. Krommer, Janacek, Dvorak. Recital Hall (Tue).

New York

Pinchas Zukerman, violin recital, with Marc Neikrug (piano). Brahms programme. Carnegie Hall (Tue) (247 7800).

New York Philharmonic conducted by Andrew Davis, with Mitsuko Uchida (piano). Beethoven, Strauss (Tue); conducted by Raymond Leppard with Ida Haendel (violin). Handel, Dvorak, Britten (Thur). Avery Fisher Hall, Lincoln Center (799 9595).

The Fischer Duo. Beethoven, Nadia Boulanger, Robert Sirota, Elliott Carter, Chopin. Merkin Hall (Wed) (362 8719).

Washington

National Symphony conducted by Gunther Herbig. Viktoria Mullova (violin). Brahms programme. Concert Hall, Kennedy Center (Tue) (254 3776).

Chicago

Moscow State Symphony conducted by Yevgeny Svetlanov. Tchaikovsky, Rachmaninov. Orchestra Hall (Mon) (435 8122).

The Gondoliers

SADLER'S WELLS

After the dismay expressed on this page by Rodney Milnes at the New Sadler's Wells Opera's *La belle Hélène*, one reports with relief on an inoffensive *Gondoliers* that does the work no disservice, has one or two good ideas and whose main fault is, if anything, a too genteel reticence.

At first glance Gerard Howland's set seems to be dominated by yet another tilted disc; in fact the stage floor is a giant straw boater with a crown that rises and revolves like a parody of every post-war *Ring* production. Vernon Mound's production evokes a Venice that is Edwardian and English, just as the ENO *Mikado* gave us 1920s clubland. The opening chorus, less Shavian New Women than pretty Wellsian working-girls, presents sensible misses in Edwardian blouses and skirts.

The ducal pair's vulgarisation, with their paid appearances at charity functions, middle-class dinners and on the board of commercial companies, comes over with startling topicality. If Julian Moyle's Duke is pleasantly adequate, Linda Ormiston gets the show's *biggest ovation (never* mind "Take a Pair of Sparkling Eyes" or "I Am a Courtier") for her account of the wooing of the awful nobleman. Attack, comic style and voice are helped by a costume of stylised hispanicism that combines black bombazine, flamenco frills, and fan *motifs* in unexpected places.

John Ayldon stands out as the Grand Inquisitor; the programme biography confirms that he sang the G and S bass roles with the old D'Oyly Carte, and it shows. There is an individual and elusive style to the Savoy operas, as hard to achieve as for Offenbach, and the idiotic Arts Council decision to kill off the old company did much to wipe out a unique tradition. Still, this performance is musically respectable, despite an under-projected and cloudy-voiced Tessa. Laureen Livingstone, some gusty unevenness of emission apart, is a neat-voiced Gianetta. Simon Phipps' conducting as yet lacks sparkle and leaps ahead of the singers' breath-control at times; but the opening 20 minutes emerge as effortlessly fresh and melodious as anything Sullivan wrote (the last rich bloom of the partnership; the carpet quarrel and the falling-off of *The Grand Duke* and *Utopia Limited* were to come).

Martin Hoyle

FINANCIAL TIMES

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Monday October 24 1988

A surfeit of debt

THROUGHOUT the 1970s the *leitmotiv* of much bankerly conversation was that sovereign borrowers did not go bust. The equivalent theme in the 1980s seems to be that overgeared companies are an excellent banking risk. This sounds a very curious guiding principle for a business which is itself very highly geared. But the bankers have been backing their new insight with ever-increasing amounts of depositors' money.

The past month has seen RJR Nabisco, the US tobacco and food group, propose a $17bn leveraged buy-out. This is potentially the biggest ever and will involve huge amounts of external finance. The group's larger rival Philip Morris is bent on a huge $11bn bid for the Chicago-based food concern Kraft, which will also keep the bankers busy. Britain's Grand Metropolitan, meantime, is engaged in a highly geared $5.2bn bid for Pillsbury, owner of the Burger King hamburger chain. In Australia Mr Alan Bond of Bond Corporation added to his holding in the international trading group Lonrho, while declaring that he was 'comfortable' with the $6bn of debt that positively dwarfs the equity of his group.

Corporate monoliths

To the extent that this leverage contributes to industrial restructuring, it is not without advantages. Anglo-Saxon capitalism provides stronger incentives for creating corporate monoliths than unwinding them. All the deals mentioned here involve mature businesses like brewing and tobacco, which coincidentally enjoy stable cash flows from which to service a high level of debt. Bids also exercise a discipline. Pillsbury is in urgent need of a shake-up and GrandMet will certainly provide it if it wins the day.

But there is nothing new here to justify the banking system taking on higher degrees of risk than in the past. What is novel is that the banks themselves have become less creditworthy since the debt crisis than their biggest clients, who now by-pass them and go direct to the markets for funds. As banking relationships have come under pressure because of increased competition, profits on basic lending have declined. There is thus a huge temptation to bolster profits by taking on more risky business. And there is no shortage of entrepreneurs ready to supply it to them through highly geared bids and buy-outs. The result is that poor quality debt finds its way into bank balance sheets and high yielding junk bonds, which are a disguised form of equity, find their way onto the books of financially troubled savings and loan institutions in the US. These institutions are thus turning into universal banks by default.

Also novel is the way entrepreneurs and managers are encouraged to go into hock by the growth of liability management, which helps control risk. Grand Metropolitan, for example, has relied heavily on interest rate caps to prevent the gearing in the Pillsbury bid wrecking its profits if interest rates rise.

Financial engineering

The trouble with such financial engineering is that it does not eliminate risk; it merely transfers it. And as a report by a group of central bankers under Mr Sam Cross of the New York Fed remarked a while ago, there is a risk that new financial instruments can be mis-priced. In an over-competitive banking market they are probably being mis-priced in a way that favours the client, not the banker.

The consequences of all this are potentially very serious. At the industrial level the game was given away by Mr Ross Johnson, chairman of RJR, when he told Fortune magazine: "It's a lot goddamn harder to launch a new cigarette than to go borrow at the bank and buy what somebody made 20 years ago." That is not how they do it in Japan.

In the financial area it is easy to build a scenario in which the US Federal Reserve finds itself forced to choose between the collapse of the dollar and the collapse of the US banking industry; the Fed's ability to raise interest rates is being severely impaired by the gadarene plunge into debt. Be warned: old fashioned banking text books were not cautious about leverage for nothing.

Kohl's mission in Moscow

THERE IS an element of competition in Western Europe about how best to deal with Mr Mikhail Gorbachev and his attempts to modernise the Soviet Union. All Western leaders want to go and see him; all wish to invite him back. This week it is the turn of Chancellor Kohl of West Germany whose Foreign Minister, Mr Hans-Dietrich Genscher, was one of the first to go on record as saying the Gorbachev reforms must be encouraged.

Mr Kohl will be taking a series of steps to forge closer bilateral links across a field ranging from nuclear energy and the environment to space flights and cultural exchanges. His delegation includes five Cabinet ministers and about 60 top executives and bankers.

Bonn's reasons for wanting to do business and to build up human ties with the Soviet Union are understandable and, in general, should be encouraged. West Germany, after all, is a major economic power that has sometimes been criticised in the West for not pulling its weight in external policy. The days when the Soviet Union regarded the federal republic as a revanchiste pariah are also long since over. The visit should thus be seen as a natural and welcome exchange between too big, and almost neighbouring powers, although caution is necessary.

Trade partners

West German leaders therefore need to keep cool heads in assessing the real extent of possibilities for positive Soviet changes. The federal republic is Moscow's leading trade partner in the West and some West Germans believe they have an obligation to improve the unpleasant consequences of Europe's post-war division.

Yet Bonn should not overestimate the leverage it can bring to bear on the long and arduous process under way in the Soviet Union. Moreover, however much sympathy the West German Government may have for Mr Gorbachev's objectives, it should guard against encouraging the belief that he will not face setbacks.

The desire, even yearning, for Mr Gorbachev to succeed in giving the Kremlin a more Western-style face unites nearly all strands of West German opinion. German industry is keen to participate fully in Soviet economic modernisation and there is a strong consensus for relaxing Western controls on transferring technology to the Eastern bloc.

At the same time, as perhaps there always is during an American presidential election, there is concern about a possible waning in the US defence commitment to Western Europe.

Nuclear ploy

Mr Kohl's freedom of action is limited, however, even if he wanted to got too far. He and his advisers are well aware of the risk of West Germany being split off from the rest of Nato by any ploy by Mr Gorbachev on freeing Europe of nuclear weapons. As long as the Warsaw Pact maintains its considerable conventional force superiority, this idea would endanger rather than enhance the security of the federal republic.

Although West German opinion may be inclined to reduce the country's overall defence readiness, it is a big leap from pressing for further progress on arms control to openly embracing neutralism or anything like it.

Still, there is always the possibility that either Moscow, West Germany's friends, or both, will misinterpret Bonn's motives. It is thus worth recalling that even Mr Genscher has stressed the need for mutually balanced force reductions, rather than unilateralism.

The West German Government knows that a position of unequivocal integration with Nato and the European Community offers it the best chance, and probably the only one, of influencing for good what is happening on the other side of the East-West cleavage.

So, probably, nowadays, does Moscow, which has problems with its own allies to deal with. Mr Kohl's administration and the federal republic's friends share the responsibility of making sure that this Western commitment remains unshakeable. After the various visits and after the American elections, it will be time for the Western powers seriously to compare notes.

Geoffrey Owen, Ian Davidson and Paul Betts talk to France's Prime Minister

Europe's federal imperative

Five months after Prime Minister Michel Rocard first took office, his honeymoon is evidently coming to an end. Public sector workers are up in arms again over low pay and poor conditions and his own socialist supporters are not making life any easier. But Mr Rocard remains driven by the ambitions of a political ideal which have long set him apart, both from traditional socialists in France and from traditional liberal thinking: and the central theme of that ideal is a very clear-cut vision of a united Europe.

"I am clearly a European federalist," he fired off in immaculate English when we met him in his first floor office, overlooking the garden of the Hotel Matignon. "If we are not federated within 20 or 30 years, our generation will be guilty in front of the world."

Some French cartoonists gently mock Mr Rocard, depicting him as a Boy Scout (as he once was), but there is nothing wishy-washy about his political prescriptions. During a two-hour interview, Mr Rocard spelled out his convictions on tax harmonisation in Europe, on the need for monetary co-operation and why the Germans are being difficult, and the case for a larger European role in the disarmament process. At home, he outlined his domestic dilemmas arising from the squeeze on public spending, his new definition of what socialism means in France today, and the looming political fracture over immigration and the rights of immigrants.

On every issue, Europe is the determining framework for Mr Rocard's thinking. It starts with his vision of the role the European model can play

Mr Rocard's new French socialism is committed to the free market — with social justice

in leading the way towards human rights and social justice. What sets Europe apart, for Mr Rocard, is not just its high level of economic development, nor its political pluralism, but its systems of social protection.

Unfortunately, Europe risks missing its opportunities in two ways. The first is that the public spending which is the counterpart of the European model has become politically unpopular; and the second is the resistance to political and economic unity on the part of West Germany and Britain.

Of the two, the British problem is the most obvious, but the German problem is the most immediate and threatening. Of Mrs Thatcher's view of the European Community as a confederation of nation states, Mr Rocard was coolly dismissive: "This is a respectable thesis, but I think it is archaic. If that is the way it is, we shall be gently colonised by products and technology from both sides of the Pacific Ocean. Europe needs renewal, and this means a capacity for us to work together."

Mr Rocard said that he would welcome the adhesion of Britain as a full member of the European Monetary System (EMS), but only on certain conditions. "If it becomes really European, that would be very useful; but it would equally be harmful, if its presence were still a source of paralysis. But if you wait until your reserves of oil are finished, you will be in a far worse position. The nuisance capacity of Britain in this respect is not significant, I'm sorry."

He made it clear that his main preoccupation was with West Germany and the need for Bonn to revise its nationalistic economic policies. "Germany is taking risks," he said. "We are now in an interdependent system. What happens outside the country, especially in other European countries, cannot be neglected. But the Bundesbank is obviously more worried by the relationship between the dollar and the D-Mark.

"The German population is already diminishing by 0.5 to 0.6 per cent a year, so if you have a gross national product which grows by zero, it means the per capita growth is 0.5 to 0.6 per cent. They don't need growth. Whereas the other member states, and France most because of our strong demography, still need growth — a good 10 years for the Dutch, and 20 to 25 years for us."

Mr Rocard explained the attitude of the Bundesbank partly by its constitutional autonomy from Bonn, but partly by the make-up of its governing board, which was constituted by representatives from the Länder.

The French government would continue to call for the constitution of a European central bank and would make the required concessions to German sensibilities to get it. "It is an absolute necessity," said Mr Rocard, "and we shall concede that it has to be politically autonomous, to reassure the Germans. I do not believe that monetary authorities can escape any relationship with political authorities; you cannot fight a war without the central bank working with the government. But Europe deserves some sacrifices . . ."

But Mr Rocard warned that West Germany's partners were being "hampered" by Bonn's policy on interest rates, which he said were creating the conditions which "might lead within a few years to a crisis in Europe."

At the same time, Mr Rocard emphasised that, in his opinion, the Franco-German special relationship "remains the key" for both France, Germany and Europe.

"There is now, since Gorbachev and the INF Euromissile treaty, a new situation in which there is a demand for conventional disarmament, and therefore a demand for the participation of European countries in the process. This has created an open situation, in which we can begin to work on some more solidarity in the way we speak about defence. We are facing the double necessity of entering the arms control process, and of increasing our European capacity to uphold our part in a balanced alliance with the United States."

Unless the Europeans succeeded in speaking and acting together, however, Mr Rocard did not believe that there would be serious progress in conventional arms control. "In terms of defence, we are ridiculous," he said. "300m Europeans praying to be defended by 230m Americans from 280m Soviets, whose standard of living would not lead one to suppose that they are better than us."

In the case of defence co-operation with Germany, Mr Rocard highlighted the project for a joint Franco-German brigade now in the process of being established. "The key issue is, can we find a way between the integrated Nato doctrine for conventional forces, which is the doctrine of flexible response and forward battle, and the French doctrine which says that conventional forces are only required to allow some time for the nuclear strike decision. The pertinent answer lies somewhere in between."

Mr Rocard expressed deep regret over the failure to agree on a single European fighter programme for the 1990s and blamed his own country for the costly fiasco.

"This is the consequence of what is wrong in my country's national mentality: France behaved in these negotiations with a claim to direct and control the whole process, which was just not possible." If the four other countries broke with France, he said, it was "France's fault for having badly conducted the negotiation".

"The Rafale will be expensive, but we shall build it," he said, referring to France's alternative fighter. He is still hoping to salvage some degree of co-operation between the Rafale and the four-nation European Fighter Aircraft (EFA) project. "I think a good solution would be to find common armaments for these two planes, the same radars for some missions, perhaps the same engines; and possibly a common policy for exports, and even a joint management system for the two projects. My government is ready for any intelligent solution."

Mr Rocard's outspoken views on the Rafale project have caused immense controversy in France. His views on fiscal policy in the European Community, and especially his rejection of Commission proposals for the harmonisation of value added tax, have caused just as much dismay in Brussels. But Mr Rocard's objection to the Commission plan is based on a Cartesian argument for the role of public spending and the special characteristics of the French economy.

France is squeezed on two fronts, according to Mr Rocard. Despite its policy of budgetary rigour, it must ensure adequate revenues to sustain state spending on public services, which are threatened by rising costs and declining standards. At the same time, France is suffering from a serious deterioration in its visible trade balance and one of Mr Rocard's top priorities is to avoid any tax changes which could undermine further French industrial competitiveness.

Europe deserves sacrifices: Prime Minister Michel Rocard

As the standard-bearer of France's new socialism, Mr Rocard is firmly committed to the principles of the free market, tempered by the claims of social justice. "The socialists," he said, "have chosen a free economy, open to the outside, mainly private, and in which even the public sector has its own decision-making autonomy; so then we are in a competition process of who is best at management."

Value added taxes in France are among the highest in the Community. But the competitive constraint means that Mr Rocard gives a much higher priority to the reduction of direct taxes on companies, on individuals and on savings, than to the harmonisation of indirect taxes, which would imply a sharp cut in French VAT rates and loss of state revenues.

Mr Rocard maintained that France would have to cut its taxes on savings within the next two or three years, to coincide with the liberalisation of capital movements in the European Community. "But this is a question of FFr 15bn to FFr 18bn, let's say between £1.5bn and £1.8bn. So when somebody comes in from outside and tells me to cut VAT, I just say: 'Give me some time to look at it!'"

As it is, Mr Rocard is acutely conscious of the deterioration of the infrastructure and the fabric of public services. "I don't think our countries nationally will keep their social cohesion in a situation in which progressively the quality of the services given by any public authority, central or local, is diminishing; in which the school system and the health system are in huge crisis, in which the only way out is personal financial success which compensates for the lack of public service.

"But we are living with a public which feels that we spend too much on the state, and this will probably last for some more years; I hope not until the point of complete decay . . ."

Mr Rocard's preoccupation with the quality of public service goes hand-in-hand with his determination to avoid "religious wars" and to "de-dramatise and de-symbolise" the political choices facing France today. He has adopted a low-key approach to the new wealth tax, which he is introducing as part of President Mitterrand's electoral manifesto, but at a far lower rate than the earlier socialist wealth tax of 1982. "I wanted to create this tax," said Mr Rocard, "but in non-devastating conditions; FFr 4bn is not an enormous sum."

Mr Rocard believes that the traditional causes of conflict between left and right in France — including the Church and Money — have lost their earlier virulence. Instead, however, he fears that the issue of immigration poses a new threat to the political life of the country. "This is the day-to-day conflict; this is the main problem in France." Pointing to the contrast in birth-rates between Europe and Africa, Mr Rocard speculated that "within 30 years, Spain, Italy and France might have 15 to 20m new immigrants".

As we sat listening to him expound his views on the present and his vision of the future, we could have been tempted to wonder whether the new Socialist Prime Minister is not, after all, too good to be true. Yet his views and his visions have made him one of the most popular politicians in France for two decades. If there is a new consensus to be forged in France today, Mr Rocard is bound to play a key role in forging it.

OBSERVER

Playboy and survivor

■ It is said that he was a truly awful musician, in contrast to his then neighbour, King Bhumibol Adulyadej of Thailand, who is thought still to play a mean jazz saxophone. He also made very bad movies. One, called Le Petit Prince, gives some clue to his egocentricity. The images of him stretching across the years include showing the then Jackie Kennedy, with her then escort Lord Harlech, around the temples of Angkor Wat; his lavish parties and banquets; and his spectacular rows with the late President Sukarno of Indonesia over women at non-aligned conferences. Tomorrow he will be received by Margaret Thatcher.

The picture of a roly-poly playboy royal has stuck to Prince Norodom Sihanouk down the years. With his high-pitched sing-song French voice, his tendency to giggle and to go on a bit, you could be forgiven for thinking of him as not a serious man, whom history has passed by.

You would be wrong. Sihanouk was installed as King of Cambodia, as he insists on calling it, by the Vichy French as a puppet at the age of 18 in 1941. Indochina (Vietnam, Cambodia and Laos) staggered on as French colonies until 1954.

Sihanouk turned out to be anything but a puppet. He abdicated in favour of his father; and when the old king died, he abdicated in favour of his mother, Queen Kissomak. He became Prime Minister, Foreign Minister, head of state, permanent representative at the UN and lots else besides, sometimes simultaneously. His small country of 7m people flourished. It was always able to feed itself even when there were famines in nearby India and Pakistan. He was an autocratic ruler, but benign.

He must now regret not having killed off the Stalinist French-educated Khmer Rouge leaders, who caused such trouble later, when he had the chance in the 1960s. Instead he sent them into exile. Still, Snooky, as he became known, is a survivor.

He gave his country 30 years of peace when neighbouring Vietnam was being torn apart by wars with the Japanese, the French and the Americans. In his last days of power he survived by allowing the North Vietnamese to use his country as a sanctuary for the Vietnamese insurgents. He was finally kicked off the high wire in 1970 when Nixon and Kissinger decided to extend the Vietnam war into Cambodia. His country descended into barbarism.

He travelled the world and the Khmer Rouge committed genocide between 1975 and 1979, decimating the population by at least 2m people. When the Khmer Rouge in their turn were thrown out by the Vietnamese in 1979, Sihanouk joined them in an opposition coalition outside the country. He said anything was better than the Vietnamese.

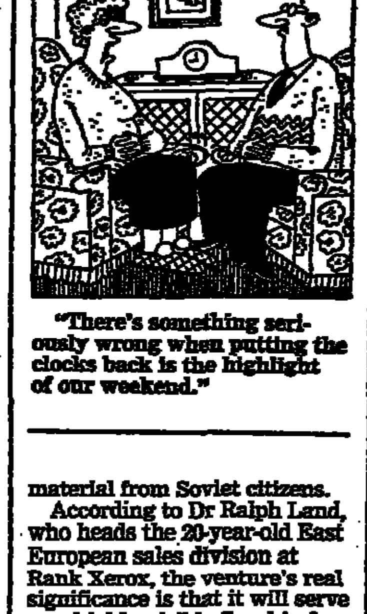
Now 65, he is said to want nothing more than to return to his old capital Phnom Penh, although perhaps he would no longer recognise the once stunningly captivating city of tree-lined boulevards, Buddhist temples and French-style villas. Margaret Thatcher's task is to help try and get him back without the Khmer Rouge.

Careful copy

■ Moscow is get its first high-street photocopying shop, under a joint venture with Rank Xerox. At least in theory, anyone will be be able to walk in off the street and get a document copied. In practice, a local manager will be free to decide whether or not to accept material from Soviet citizens.

According to Dr Ralph Land, who heads the 20-year-old East European sales division at Rank Xerox, the venture's real significance is that it will serve as a highly visible flagship for a company that is preparing for an explosion in Soviet demand for copying machines. Rank Xerox estimates that the 20,000 photocopiers it has installed in the Soviet Union make at least one-third of the total number in use in the country.

The venture will derive hard currency from serving Western businessmen and also from selling to the West, for the first time, copies of historic Russian documents.



"There's something seriously wrong when putting the clocks back is the highlight of our weekend."

Foot's music

■ Desert Island Discs, in my view the best long-running programme on the BBC, is going through a particularly good period. Not long ago there was Lord Armstrong devising the definitive guide to music in eight records with all the precision of a former Cabinet Secretary and part-time composer. (Mendelsohn has long been under-rated, Prime Minister.) Last week there was Cilla Black, giving not a fig for the classics. Yesterday there was Michael Foot.

The hero was Rossini, the favourite place Venice. Byron, Swift, Stendahl and Heine all came in as Foot talked as if he were at the prime of his wit. The trouble with the former leader of the Labour Party, one has always thought, is that he was born in the wrong age. One of nature's Whigs, he would have flourished if America had not been discovered, nuclear weapons not been invented and before the primacy of economic policy.

The programme, which must be one of the gems of the series, will be repeated on BBC Radio 4 on Friday morning.

Better parties

■ Small concession from the Inland Revenue: employers may now increase their expenditure on staff Christmas parties without paying tax. The conditions are that the party or similar function must be open to staff generally, and not otherwise exclusive, and that the costs are no more than £50 a head. The original principle of "modest cost" allowances for parties was introduced in 1984. Modest was then defined as "£30-35 a head". Inflation has thus been taken into account.

Glowing praise

■ Two female glow-worms meet. "And how is your youngest?" says one. "We're very pleased with her," replies the other. "She's very bright for her age."

Hugo Dixon analyses the difficulties of the Scottish electronics company Rodime

Wrong timing, wrong place

Why s Britain's performance in high technology industries so poor, and why are its companies so rarely able to capitalise on inventions and turn them into commercial successes?

The story of Rodime, a Scottish electronics company, sheds some light on these questions. The company, which only a few years ago was being held up as a shining example of how Britain could pioneer and make money out of new technologies, is now struggling to pull itself out of a financial crisis.

The secret of Rodime's initial success was technical flair. The company was formed eight years ago to manufacture Winchester disk drives – devices that are attached to computers to increase their storage capacity.

When Rodime started its operations the disk drive industry was in its infancy. Drives measuring eight inches or more across had for some time been used in conjunction with mainframe computers, but this was a low volume market. It was only after Seagate, a US manufacturer, launched a 5¼ inch drive in 1980 which was small enough to be used with personal computers that disk drives took off, growing into a $5bn per year industry today.

Rodime's key failure was to rest on its laurels while US competitors were bringing out new drives

Rodime's engineering skills allowed it to ride the early part of this boom. In 1981 it launched a 5¼ inch drive with more than double the memory of Seagate's drive and in 1983 it strengthened its technological lead by producing the world's first 3½ inch drive.

Success came when Apple Computer chose the new drive for its personal computers and Rodime's profits soared. At its height in 1983 the company was capitalised at $180m and was one of the darlings of the US over-the-counter market, where it had decided to raise funds in the belief that US investors understood the risks and opportunities of high technology companies better than the British.

The subsequent problems were the result of an inability to make the transition from being a small company in an infant industry to becoming a large company in a mass market. Part of the blame for this must be put down to the fact that Scotland was not the ideal location to operate from. Mervyn Brown, one of the founders who took over as managing director last year, says there was no strategic advantage in being based there except for the ready supply of engineers.

Rodime's key failure was to rest on its laurels. While its competitors in the US were bringing out new drives which could store more information and operate more quickly than the early drives, Rodime stuck with its original designs which were rapidly becoming obsolete. Malcolm Dudson, another founder who was in charge of marketing at the time, explains that the company felt it was not worth designing a completely new drive because the existing products still had life in them.

The only credible explanation of why Rodime took its eye off the ball in this way seems to be that it was out of touch with its market. Consumers were demanding higher performance drives to use with the more sophisticated programmes being developed for their personal computers and the company failed to see this happening.

But Rodime was not totally out of touch. It set up a plant in Florida in 1983, reasoning that since most of its potential customers – the computer manufacturers – were in the US, it needed to be there too. It decided that it required engineering and manufacturing facilities there so that it could build close relationships with its customers.

In spite of the reasoning, Rodime's centre of gravity remained in Glenrothes. It was only much later that Len Brownlow, the company's US chairman, moved his family to the US and that marketing, finance and strategy were co-ordinated from Florida.

At the same time that Rodime was losing its technological lead, it was finding it difficult to broaden its management beyond the original five entrepreneurs. This was damaging because the company was growing fast. The entrepreneurs were having to look at all sorts of new strategic questions while also taking care of day-to-day operations and, as a result, did neither job very effectively.

A further devastating deficiency of the UK as a location was its high cost of manufacturing, compared with the Far East where the US drive makers had set up plants. Rodime only began its move to Singapore in 1986, by which time its financial problems were already severe.

As competitors ramped up production of new advanced drives from their low-cost facilities, it became increasingly clear that Rodime's own models were too expensive and out of date. Apple, which at one point had accounted for nearly half Rodime's sales, gave notice that it was switching to another supplier. The company had to write off millions of pounds worth of old products which nobody would buy. Pre-tax profits of £14.8m in 1985 were replaced by losses of £1.6m and £13.4m in 1986 and 1987 respectively. The losses have continued this year: $3.7m in the quarter to the end of March and $5.3m in the quarter to the end of June.

Rodime is now trying to make a come-back. Last year it introduced a series of new products, the most important of which was a 3½ inch drive that can store as much data as any similar product in the market. It also launched a new 5¼ inch drive which is half the height of normal 5¼ inch drives.

The new drives have given Rodime breathing space. Both have been launched into sectors of the market which are growing fast and where competition is, at present, light and prices reasonably firm.

Even so, Rodime is not producing in large enough quantities to wipe out the red ink on its profit and loss account and it is still trying to put together a financial package worth about $20m to tide it over until profits start appearing.

Rodime is in danger of getting caught in the industry's present turmoil before it can stabilise its financial position. "You can't bank on keeping leadership position unless you have more products up your sleeve. Maybe they have something to help them but it better be out pretty quick," says Jerry Atterbury of Dataquest.

Rodime has answers to each of these doubts. The business may not yet have returned to profit but, says Mervyn Brown, sales have increased from $25.4m in the quarter to the end of March to $29.9m in the quarter to the end of June and have grown again in the quarter which has just ended. Brown also claims there is no danger of the company failing through lack of cash. The delay in putting together a financial package, he says, is not caused by any reluctance by its backers but by the the fact that placing new shares when the company's capitalisation is only $15m (based on 7.88m shares in issue) would be extremely dilutive. "There's not a problem in raising money; there's a problem in the price."

The company also expresses confidence that a repeat performance of the mid-1980s, when its technological lead was eroded, will not take place. Dudson says there is "no chance" of its products being overtaken by competitors, while Taylor claims that coming up with improvements to its existing range will be a "piece of cake".

Following the company's history of announcing false dawns, there has to be some scepticism that the future is as rosy as it makes out. As Patrick Wellington, an electronics analyst at County WoodMac in London, says: "There is always recovery round the corner according to Rodime."

One thing is clear, however. If Rodime does pull through, it will be manufacturing mainly in Singapore, running the business and marketing its products from Florida, and financing itself on Wall Street. All the key functions apart from engineering will have migrated from Glenrothes. What emerges will no longer, for practical purposes, be British.

LOMBARD

Sterling needs to rise, not fall

By Samuel Brittan

Last Friday's fall in sterling followed the Chancellor's Mansion House speech, in which he made the bad mistake of not repeating his earlier categorical rejection of any policy of devaluing sterling. That fall could prove a temporary blip; and it may in part have been a by-product of the D-Mark's sharp recovery.

But, in any case, sterling's move was in the wrong direction. For if the UK is to reverse a quite sharp inflationary upsurge and to return to the path of low inflation, sterling needs to rise, not fall.

The policy I am advocating is very different to that attributed to the Prime Minister in March, which was to concentrate on domestic monetary policy and accept the consequences for sterling on the grounds that "you cannot buck the market." On the contrary I am suggesting a deliberate attempt to raise the target range for sterling, increasing base rates if necessary.

The evidence has changed since the spring. Inflationary forces are now active not merely in the domestic credit and mortgage markets, but in sectors of the economy open to international competition.

A great deal of harm has been done by indicators of labour costs, such as those of the International Monetary Fund, showing the UK much less competitive than in 1978. So much has changed since the base date in the composition of output and in non-price performance as to make these comparisons worthless.

Much more worrying than anything that Thursday's trade figures could have in store, was the rise in consumer spending in the third quarter of 1988, to nearly 6 per cent above a year ago. Even this indicator might be downgraded because the rise in interest rates has not yet had time to affect personal spending.

What cannot be dismissed so easily is the increase in the twelve-monthly underlying earnings increase from 7½ per cent in March to 9¼ per cent in August. Not all the rise reflects increased overtime; and much of it was incurred in the export and import-competing sectors. According to McWilliams Economic Services the prospects are for an rise in the underlying earnings increase of 9½ per cent in the 1988-89 pay round. Profits will be squeezed by rising pay and more difficult market conditions at home and abroad. The central estimate is of a profit rise of near zero next year. (The Outlook for Corporate Profits, Boundary House, Tel: 01 251 2612).

But because of the very high level to which profits have risen, and the sluggish response of the UK labour market, earnings will be slow to moderate in response and might still rise by 8¼ per cent in 1989-90. This suggests that, so far from being uncompetitive, present exchange rates and profit margins make it all too easy for employers to grant and pass on pay increases.

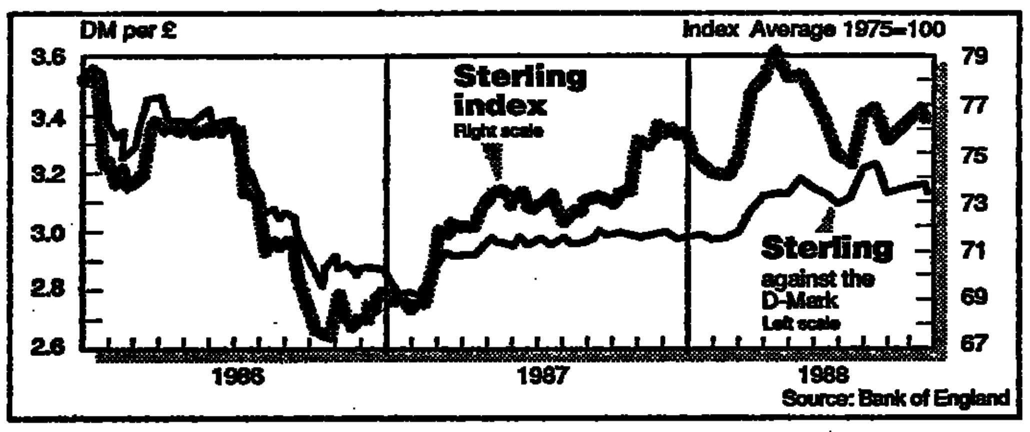
If we are serious about reducing core inflation, profits have to be squeezed much more than now in prospect so that it becomes more difficult to afford pay increases.

The suggestion that sterling should be nudged upwards should separate the sheep who worry most about inflation from the goats who are hung up on the balance of payments.

But why was the Chancellor, who has recently denounced devaluation so reticent at the Mansion House? We can only speculate. But there does exist an unholy alliance between unreconstructed monetarists and the old economic establishment. The unreconstructed monetarists are against any policy for the exchange rate and are well known to have access to the Prime Minister.

By the old establishment, I mean those economists who regard this year's current payments deficit and Whitehall's forecast of a similar deficit next year as a prima facie reason for sterling depreciation.

As anyone can confirm from the files, Nigel Lawson's more robust remarks about a depreciation of sterling being "wholly inappropriate", the indications that he is ready to raise interest rates to support the pound, and his view that membership of the European Monetary System might have helped in the fight against inflation have come in unscripted interviews. His prepared speeches, which have to run more of a political and official gauntlet, have recently been silent about sterling, and much less interesting than his off-the-cuff remarks. It is time he threw off the bad influences on formal occasions too.



Source: Bank of England

LETTERS

'If this is not a sell out, I want to know what it is'

From Mrs A. Nicol-Gent.

Sir, As a London Life policyholder, I must voice my feelings at the disgraceful manner in which the extraordinary general meeting was conducted on Wednesday October 19 (FT, October 20).

I was present at both the meeting held in the Barbican and at the Café Royal and it was hard to judge clearly the issues at stake. Queen's Counsel were amongst those present and asking questions of the chairman and board, but the replies, the hedging and the refusal to reply made one wonder what, in fact, was taking place.

We were told at the beginning of the meeting that the resolution before us had already been carried and that our votes would make no difference to the outcome. This was due to the very considerable proxy vote which the chairman claimed supported the motion – I understand that some people experienced delay in notification of their right to vote by proxy.

The vote being taken was to allow the chairman and board to change the articles of association of London Life. This in my view is a very serious issue and I wondered why it had not been made more clear. I feel sure that many policyholders did not realise the importance and implications of such a step.

The impression that I formed was that the board was railroading the policyholders, and that the proposed merger with Australian Mutual Provident is, in fact, a sell out. Other policy holders at the meeting told me that their savings had been placed with London Life in good faith and they felt that they had a great deal to lose if the merger went through. The chairman and board admitted that they would be resigning after the merger – they seemed happy to sail us into rough water and then abandon ship!

Policyholders at the meeting generally seemed happier with the alternative proposal that London Life should merge with Equitable Life. I am one of those of this opinion.

If the merger does go through, of the 15 board members, 12 must be Australian and reside in Australia, 3 must be Australian and reside in the UK, only one is allowed to be British. If this is not a sell out, I should like to know exactly what it is.

I repeat again my call made at the Barbican for a vote of no confidence in the chairman and the board of London Life. I now add to that a request for a question to be asked in the House.

Anthea Nicol-Gent,
Dewhurst Gardens,
Richmond,
Surrey

Success story in Strathclyde

From Mr Edward Harkins.

Sir, Your survey on Strathclyde was excellent (October 18). The writers showed sufficient scepticism towards the current vogue for hype on Glasgow and things Glaswegian, whilst also demonstrating the real recovery which is going on in Strathclyde.

I have one comment which particularly applies to James Buxton's introductory piece. Scant mention was given to the remarkable success story of community-based housing associations in Strathclyde. This type of housing association, concentrated around Strathclyde, has an unsurpassed record in partnership between communities, professionals and private industry. This partnership played a considerable part in moving post-1960s housing away from wholesale clearance and rebuilding, towards the conservation and renewal of existing communities.

And now, in partnership with the new Scottish Homes Agency, the housing associations will be required to greatly increase the private equity in their developments. So if there are lenders and developers who are seeking genuine working community partnerships, come and meet us in Glasgow's East End.

Edward Harkins,
Tollcross Housing Association
84 Braidfauld Street, Glasgow

Reasons for anti-dumping action

From Mr R.H.W. Bullock.

Sir, Terry Dodsworth, writing about the European Electronic Component Manufacturers' Association's (EECA) anti-dumping action on semiconductors, said that the European Commission had run into difficulties over imposing financial penalties ("EC chip probe hits snags," October 10). He implied the penalties are being demanded by the European manufacturers. This is misleading.

The object of anti-dumping action is to stop damaging dumping and/or prevent its repetition: financial penalties are only a means to this end.

If it is the case, as Mr Dodsworth suggests, that the Commission has found dumping proved, the European producers represented by EECA (of which the Electronic Components Industry Federation is the UK member) would certainly not want remedies adopted which damaged the interests of their customers, electronic equipment makers.

What they would expect is the creation of an effective safety net to prevent any recurrence of unfair pricing – without the need to start a time-consuming new anti-dumping case.

Richard H.W. Bullock,
Electronic Components Industry Federation,
Romano House,
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This is a marvellous opportunity to overhaul the Takeover Panel

From Mr Daniel P. Broby.

Sir, The current bids for Scottish and Newcastle Breweries and for Consolidated Gold Fields offer the Department of Trade and Industry, the International Stock Exchange, the Securities and Investments Board and The Securities Association, a marvellous opportunity to overhaul the workings of the City Takeover Panel and the Monopolies and Mergers Commission.

When the Bank of England set up the Panel in 1968 it was envisaged that it should ensure (1) all shareholders were treated equally, (2) that they be given adequate information, (3) that the directors act in the best interests of shareholders, whilst (4) avoiding false markets in shares during a bid.

The uncertainty of a referral to the Monopolies Commission, as is the case in the afore-mentioned examples, can be said to violate all four principles.

Firstly, all shareholders cannot be said to be treated equally if the threat of a referral "panics" some long-term shareholders in the company into selling their shares to protect any capital appreciation that they may have made.

Similarly, they cannot be said to have been give adequate information about the takeover. It is not the offerer or the offeree who is at fault, but a hesitating regulatory body trying to decide on the merits or otherwise of the bid.

The directors of the target company are encouraged to attack the bidder on the grounds that the bid should be referred to the Monopolies Commission. This is not so much in the interests of their shareholders as in their own private interest (their jobs) and the public interest (which is not their brief).

Lastly, the mere overhang of a referral creates a false market in the share's price until the matter has been resolved. Witness the languishing price of Gold Fields and S&N.

The solution which I propose is that, firstly what constitutes "against the public interest" and "against the national interest" be made clearer. (A matter which I am sure the Kuwait Investment Office would like to have resolved). Secondly that any bid which is likely to conflict with these be examined by a "full-time" panel before it is announced to the shareholders and general public. The decisions would thus be faster and cause less confusion.

Would the panel care to answer these allegations, or are they going to refer the matter to the Monopolies Commission or indeed the DTI?

D.P. Broby,
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FINANCIAL TIMES
Monday October 24 1988

Deborah Hargreaves in Chicago

Thinking about a future crash

AS THE futures industry indulged itself in a lengthy contemplation of its navel on the first anniversary of the stock market crash, market players could not forget that stock index volume is sorely depleted and retail custom in futures has halved from last year.

Futures industry officials meeting in Chicago last week heard again the assertion that their markets performed well during last October's debacle. Indeed, the past year has given the industry a prime opportunity to explain the workings of the markets to a public sensitised to the issues by the crash.

Lurking beneath the pride the industry takes in deflecting some of the criticism levelled at it in the aftermath of the crash, however, is a fear that Congress has yet to wield its hammer. It took four years for the US Government to deliver its legislative response to the 1929 crash; Congress still has several bills before it that are anathema to the futures industry.

These bills, which collectively propose to increase futures margins and to change regulation of the industry, are expected to be reintroduced next year, when a new President may take a more interventionist approach.

Futures officials fear a victory by Mr Michael Dukakis, the Democratic candidate, would signal bad news for their markets. At the same time, the industry is wary of an administration headed by Mr George Bush, which would probably retain Mr Nicholas Brady as Treasury Secretary.

If this were the case, Mr Brady might well push for some of the reforms in futures that were suggested by the report of his task force on the crash. These include the creation of a single "super-regulator" for the futures and securities business – a proposal that was strongly resisted in Chicago.

Congress will be provided with ample opportunity to redefine the role of the industry's regulators next year, when both the Commodity Futures Trading Commission and Securities Exchange Commission face a routine four-yearly reauthorisation process. With this, and Glass-Steagall banking changes scheduled for Capitol Hill's next session, "Lord knows what may come out of Congress in 1989," one industry official shuddered.

At least Washington cannot say it has not been made aware of the futures industry's feelings. Officials have lobbied intensively since the crash: Mr Tom Donovan, president of the Chicago Board of Trade, says he has paid 27 visits to the US capital in the past year.

The industry resents the suggestion it has not done much to reform its markets since the crash and stresses its attempts at co-operation in the past year. Traditionally isolated by rivalry and competition, futures exchanges have found strength in numbers.

At the same time, New York and Chicago have been pushed closer together by the interdependence of their markets – as so brightly highlighted by the crash. Last week's introduction of co-ordinated circuit-breakers in securities and their derivative stock index futures markets shows how this co-operation is working.

One of the industry's major preoccupations is how to speed the movement of funds through the system and avoid the sort of "gridlock" that occurred last October. While individual exchanges have made provisions to strengthen their own clearing and settlement processes, regulators still feel the need for some joint initiative on the issue.

This would involve an even greater effort at co-operation to include major banks as well as futures clearing houses, and probably would not be done without some kind of legislation.

For its part, the securities industry is also looking to accommodate large portfolio transactions by creating contracts that would trade baskets of stocks. However, these proposed "index participations" are likely to be held up by regulatory warfare over whose jurisdiction they fall under. Although proposed by stock exchanges, the CFTC maintains they are futures products and therefore must be traded on a futures exchange.

But, no matter how much effort is made at reform, it is debatable whether a similar downfall can be prevented in future. "Once people start to panic, you can slow them down, but there's little you can do to stop them," one industry player notes. "A crash may be something we just have to experience now and again."

ARAFAT AND HUSSEIN RECONCILED

Arab leaders seek united front

By Andrew Whitley in Jerusalem and Victor Mallet in London

MR YASSIR ARAFAT, chairman of the Palestine Liberation Organisation, held a series of unexpected meetings with the leaders of Jordan, Egypt and Iraq at the weekend in pursuit of a united Arab stand on Middle East peace negotiations.

The flurry of diplomatic activity in the Jordanian port of Aqaba and in Baghdad was apparently aimed at bolstering the chances of the relatively conciliatory Labour Alignment led by Mr Shimon Peres in the Israeli general election on November 1, although Israeli commentators said it was doubtful whether such pressure would be effective.

Mr Arafat's talks will also give him the weight of Arab support at the important meeting of the Palestine National Council, the Palestinians' highest policy-making body, in Algiers on November 12. The PNC is expected to declare a independent Palestinian state and to set out a programme for peace negotiations.

Of particular significance was the reconciliation on Saturday between Mr Arafat and King Hussein of Jordan, a country regarded as a vital part of any solution to the Arab-Israeli conflict.

Relations between the two men have been frigid since their joint negotiating platform, based on the establishment of a Palestinian-Jordanian confederation, collapsed in 1986. In July this year King Hussein severed Jordan's ties with the Israeli-occupied West Bank, leaving the PLO to take responsibility for the occupied territories and at the same time undermining Mr Peres's contention that Labour could negotiate with Jordan for a peace plan.

Officials from both Jordan and the PLO expressed satisfaction with the discussions, although no details emerged of what – if anything – had been agreed.

Improved relations between the two sides could increase the chances of their forming a joint delegation at a future Middle East peace conference, an idea backed by most of the key players except Mr Yitzhak Shamir, the Israeli Premier.

King Hussein of Jordan (left) greets Yassir Arafat, the PLO leader, on his arrival at Aqaba airport on Saturday, watched by Egyptian President Hosni Mubarak

The main purpose of the weekend's meetings, during which President Hosni Mubarak of Egypt travelled with Mr Arafat to both Jordan and Iraq, seems to have been to demonstrate that a moderate Arab camp would be able to negotiate with a Labour-led government in Israel.

"We want the Israeli voter, whether Arab or Jew, to understand where his specific interest lies," Mr Osama al-Baz, Mr Mubarak's senior adviser, said in Jordan. "Let him know when he casts his vote that there is an Arab partner ready for negotiations."

Yesterday an angry Mr Shamir accused Mr Peres, during a televised debate between the two party leaders, of drawing King Hussein into "crass intervention" in the election campaign. Last week King Hussein said on US television that victory for Mr Shamir's Likud party would be an "absolute disaster" for the region.

The weekend talks raise the question of how Syria will react. Syria has consistently vetoed peace initiatives in which it has no stake and its sense of isolation is likely to be deepened by the involvement of its enemy Iraq.

There were reports yesterday that King Hussein would visit Damascus this week to mediate between Mr Arafat and President Hafez al-Assad.

Gorbachev warns on arms talks delays

By David Marsh in Moscow

MR MIKHAIL GORBACHEV, the Soviet leader, yesterday offered West Germany partnership and friendship to forge links across Europe.

But in an interview ahead of a four-day visit to Moscow by Chancellor Helmut Kohl starting today Mr Gorbachev warned against delays in disarmament negotiations which could hold up a move towards a nuclear-free world.

Speaking to the German news magazine Der Spiegel, Mr Gorbachev called for more bilateral co-operation: "Let us try to look at each other not as two former enemies or two potential opponents, but as partners and possible friends."

But he underlined that a reversal of detente could have "dreadful" consequences, and gave a hint of the pressures the Bonn Government could come under in Moscow this week to depart from the Nato line on introducing new short-range nuclear weapons in Europe by the mid-1990s.

Mr Kohl is bringing to Moscow a delegation of ministers, officials and industrialists to seal agreements in trade, technology and culture.

Asked in a TV interview at the weekend about the discussions on new nuclear weapons, Mr Kohl recalled the Warsaw Pact's considerable superiority in conventional forces and said he opposed dismantling all nuclear weapons in Europe.

But the Chancellor, who faces strong domestic calls for further nuclear disarmament, emphasised West Germany's exposed position in the middle of Europe. "We are not hooked on [nuclear] missiles . . . but we have to live with them," said Mr Kohl.

The Chancellor, who has spoken on the telephone with Mrs Margaret Thatcher, the British Prime Minister, in recent days and also saw earlier this month President François Mitterrand, stressed that disarmament questions which could come up in Moscow were primarily a subject for the whole of Nato.

Among the five ministers accompanying Mr Kohl is Mr Rupert Scholz, the Defence Minister. In a speech tomorrow to top-ranking Soviet officers, Mr Scholz will call on Moscow to reduce its conventional force disparities and move its armies on to a purely defensive footing as a contribution to lowering tension in Europe.

Ironically, the West German Defence Minister will leave Moscow on Wednesday, a day early, to take part in a meeting of the Nato Nuclear Planning Group, at which upgrading of nuclear weapons in Europe is expected to be on the agenda.

In his interview with Der Spiegel, Mr Gorbachev also dashed hopes in Bonn that greater East-West dialogue could lead towards German reunification. He said East and West Germany were two sovereign states. Erasing the border between them would be "unacceptable if not catastrophic."

Mr Gorbachev also rejected the idea that the West was offering the Soviet Union "help" in restructuring its economy. The restructuring process was of mutual interest, he said.

Lithuanian leaders plead for patience

Continued from Page 1

from this rostrum the most complex problem which all the time since 1940 has failed to solve?" He was referring to the year when Lithuania was re-occupied by the Soviet Union.

The congress passed resolutions demanding economic autonomy from Moscow, control over emigration and immigration, on establishing its own territorial army, and demanding an inquiry into the operation of the Ignalina nuclear power station.

A resolution asserting the right of Lithuania to "withdraw from the Soviet Union" was toned down to one simply restating "the Leninist principles of federalism, national equality and self-determination."

At mass, Cardinal Sladkevicius also urged caution. "You must know that a seed grows even under the snow," he said. "You cannot see it growing until the springtime when you see the flowers. So you must learn to wait."

Words of prudence notwithstanding, the congress was a breathtaking sign of how far the Lithuanian nationalist movement has travelled.

Eight months ago, the offices of Vilnius television were searched by the KGB, after rumours that someone was planning to wave the green, red and gold Lithuanian flag from a window on February 16 to commemorate the declaration of an independent Lithuania 70 years ago.

This weekend, Vilnius has been a sea of tricolours, hanging from the lamp posts, across the streets, flying from the battlements of Gediminas Castle, and carried on banners and in miniature by tens of thousands of adults and children. The KGB was nowhere to be seen.

The explosion of nationalist sentiment and public debate in this ancient Baltic state has astonished its most fervent supporters.

Yesterday morning, as dawn came up over the city, the cardinal celebrated mass on the steps of Vilnius Cathedral before a congregation of several thousands. Many old women in the crowd were quietly weeping.

The night before, an enormous crowd converged on Gediminas Square, beside the cathedral, carrying candles in plastic cups, home-made lamps or burning torches, armed with thousands of flags of every shape and size, or simply wearing badges in the national colours. Singing and dancing went on into the early hours.

Although Mr Brazauskas received a rapturous reception from the congress, he must have been half-horrified at some of their demands.

The leadership of Sajudis is calling for "economic and cultural sovereignty" for Lithuania, in a federal relationship with the other republics of the Soviet Union. Moscow would still run defence and foreign affairs.

Yet the cheers at the congress went above all to the most radical demands: for a referendum on complete independence, for a national currency, for autonomy in foreign relations, and for a Lithuanian army with national service only at home.

Ecological demands rank high. There were demands for the end to all privileges for the "party bourgeoisie," and a halt to the building of any more statues of Lenin.

Soviets seek US computer partners

Continued from Page 1

thought the Soviet Union would be able to manufacture 32-bit chips within three years, but this could be cut by up to two years with the help of a US company.

While 32-bit chip exports to the Eastern Bloc are currently prohibited, the Soviets believe they can persuade the US Government to grant export licences for their microprocessor.

"This would not be a case of taking US technology out of the country," suggests Mr Duffey. "The Soviets would be transferring their technology to the US" in the form of the microprocessor design, he maintains.

The Soviet trade representatives aim to persuade the US Defence Department to approve the semiconductor venture. "We will offer to give the first samples of the microprocessor to the Pentagon," said Mr Duffey. "It is our intention to familiarise the Commerce and Defence Departments with our plans, but we have not yet informed them," he added.

US semiconductor experts point out, however, that chip manufacturing technology is regarded as one of the most sensitive areas of technology export control. Advanced devices such as 32-bit microprocessors represent a key component of US "smart weapon" systems which are critical to US defence strategy.

"I doubt that there would be a great deal of enthusiasm in the US toward the Soviet plan," said Professor John Linvill, a semiconductor expert at Stanford University.

The Soviet representatives in the US appear to have mistaken a friendly telephone conversation with a marketing executive at LSI Logic, a leading US chip maker, for a positive response.

Mr Wilf Corrigan, LSI Logic chairman, stressing that his company has "absolutely no interest in any such venture with the Soviets," said that an MPI representative phoned LSI Logic several weeks ago, but did not mention the nationality of his client and did not respond to a request for information about his company.

LSI Logic was one of several US companies contacted about the 32-bit microprocessor project, Mr Duffey said.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	21	70	Dubrovnik	S	20	68	Malta	S	23	73	Rhodes	S	23	73
Algiers	S	22	72	Edinburgh	R	11	52	Manchester	C	13	55	Rio de J'o	C	26	79
Amsterdam	C	14	57	Faro	S	23	73	Manila	C	31	88	Rome	F	21	69
Athens	R	19	66	Florence	S	20	68	Melbourne	C	19	66	Salzburg	C	10	50
Bahrain	S	32	90	Frankfurt	C	14	57	Mexico City	-	-	-	San Francisco	F	20	68
Bangkok	S	33	91	Funchal	C	22	72	Miami	F	27	81	Seoul	F	21	70
Barcelona	S	21	70	Geneva	C	11	52	Milan	S	19	66	Singapore	R	28	82
Beirut	F	27	81	Gibraltar	S	17	63	Montreal	R	08	46	Stockholm	C	08	46
Belfast	C	13	55	Glasgow	R	11	52	Moscow	C	04	39	Strasbourg	S	12	54
Belgrade	F	15	59	Guernsey	S	15	59	Munich	F	11	52	Sydney	F	26	79
Berlin	F	13	55	Helsinki	F	09	48	Nairobi	C	27	81	Taipei	F	31	88
Biarritz	S	20	68	H. Kong	R	24	75	Naples	S	23	73	Tangier	S	23	73
Bombay	S	34	93	Innsbruck	S	15	59	Nassau	F	29	84	Tel Aviv	F	30	86
Bordeaux	C	19	66	Inverness	C	07	45	New Delhi	F	33	91	Tenerife	S	25	77
Brussels	C	17	63	Islamabad	S	32	90	New York	R	12	54	Tokyo	F	21	70
Budapest	F	11	52	Istanbul	F	20	68	Nice	S	20	68	Toronto	R	09	48
B. Aires	F	25	77	Jakarta	F	26	79	Nicosia	F	25	77	Tunis	F	23	73
Cairo	S	29	84	Jersey	S	17	63	Oporto	F	19	66	Valencia	S	22	72
Cape Town	S	18	64	Jo'burg	F	19	66	Oslo	C	07	45	Venice	S	17	63
Caracas	C	26	79	Lima	F	21	70	Paris	F	15	59	Vienna	C	13	55
Casablanca	S	21	70	Lisbon	F	22	72	Peking	R	13	55	Warsaw	F	08	46
Chicago	R	11	52	London	C	16	61	Prague	C	08	46	Washington	F	08	46
Cologne	F	12	54	Los Angeles	C	21	71	Reykjavik	C	07	45	Zurich	S	13	55
Copenhagen	C	11	52	Luxembourg	Fg	07	45								
Corfu	F	22	72	Madrid	F	21	70								
Dallas	F	20	68	Majorca	C	22	72								
Dublin	C	14	57	Malaga	F	19	66								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Dukakis fights back

Continued from Page 1

ago to the effective negative campaign which Mr Bush has been running against him, alleging that he is weak on defence and crime.

Mr Dukakis is hoping his more hard-hitting campaign style, a decision to reach out to traditional Democratic voting groups, including blacks, and more support from members of his party will begin to narrow the gap with Mr Bush. Mr Bush was yesterday resting in Washington before a week of intensive campaigning across the country.

The 100th Congress finally came to an end early on Sunday morning when the Senate approved a comprehensive new drugs bill which imposes tough new penalties for so-called "recreational" drug users as well as for drug dealers and pushers.

Although the bill calls for a greater emphasis on drug treatment to tackle the drug problem, critics are complaining that budget constraints mean that much less money will actually be appropriated to tackle the drug problem than the new bill calls for.

THE LEX COLUMN

Taking up where gilts left off

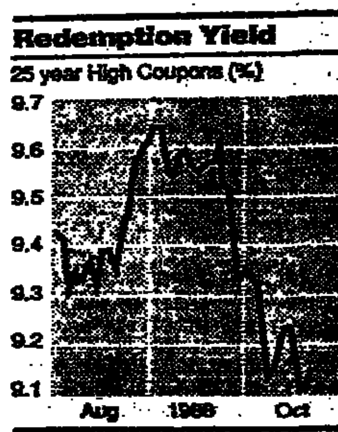
In the old days, when the Bank of England had a never-ending supply of gilts to sell, it used to avoid certain sections of the market to leave the way open for corporate borrowers. The experiments were so unsuccessful that this time it has kept quiet about the much greater opportunities offered by its brand new unfunding strategy.

For once, however, the market seems to be responding, and in the last two weeks alone there have been five sterling issues that have fitted neatly into the holes left by the Bank of England's purchases in the long end of the market. Everyone should be delighted. The UK institutions, which are feeling starved of long-term paper, have a new home for their money (on which they are offered a nice spread over the gilt yields): the Chancellor of the Exchequer can congratulate himself on what his budget surplus is doing for industry: while the issuing houses (so far Warburg seems to have had much more than its share) are being given something to do.

At second sight, it all looks slightly less encouraging. Although the combined value of the five issues is slightly greater than the £500m-odd of the Bank of England's monthly clean-up in the gilt market, the same cannot be expected to be true every month from now. Each of the five borrowers had its own special reasons for raising their issues - Land Securities and MEPC need to borrow long to match their assets, Portugal borrowed in London because it was the only place it could get 25-year money, and both TSB and Halifax needed funds long enough to be classified as capital by their regulators. The fact that they converged on the market at once is encouraging, but does not confirm that the big dash to take advantage of the tumble at the long end of the yield curve has yet quite begun.

Redemption Yield

25 year High Coupons (%)



BOC

There seems no end to BOC's resource in its treatment of shareholders. The company which pioneered UK quarterly reports, current cost accounting and scrip dividends has come up with its most radical innovation yet: the payment of dividends not for the year past, but for the year to come. The idea has a certain charm. As BOC argues, no company these days thinks of its payout in terms of a pot of money which is to be part distributed, part retained; in practice, any dividend declaration makes an implicit statement on sustainable payments in future. By spelling this out, BOC is taking the bold step of publishing a guide to its year-end budgets. And by setting the dividend for the full year and paying it out in two equal parts, the company avoids a mandatory UK board meeting half way through the year.

The idea is not wholly novel. Those US companies which pay out quarterly in equal instalments give a guide to the year with the scale of their first quarter increase. But BOC is going the whole hog: scrapping the final dividend – which becomes the first of two interims – and with it the formal approval of the payout at the AGM: bringing payments forward by two months, at an annual cost of over £1m: and incidentally, bumping up the level of payment on a one-off basis, since last year's final – more than half the annual total – will become the benchmark for this year's first payment, to be repeated six months later.

All this is scarcely suitable for companies in more volatile businesses. But then, BOC is subtly encouraging shareholdArs to focus on the long-term nature of its operations. The payout announcement is not an earnings forecast for the year, since there are no undertakings on dividend cover; but it is, by implication, a rolling forecast of the level of growth expected over a longer period. And indeed, as BOC argues, equity investment is chancy enough without shareholders in a blue chip company having to be uncertain about their income.

Life Insurance

Nobody who invested in the UK life insurance industry on the principle that it was about to be sucked into a pan-European whirlwind can afford to ignore developments at Abbey Life. Last week's announcement of a link-up with Lloyds Bank set Abbey Life shareholders baying for the bid premium to which they feel entitled; the Lloyds deal, some believe, would deprive them of it forever. But it goes without saying that where there is no bidder there is not much excuse for a bid premium. And if no one else declares an interest in Abbey Life before the November 11 egm – which must be possible given the size of the company and the heady multiple it would command – then the basis for valuing some of the sector's other stocks could also be in doubt.

With hindsight, it is easy to blame the bid speculation of the past year largely on chauvinism: the theory was that Europeans – and others – needed sophisticated expertise in the insurance business, and that British companies had something of a corner on the market. Where Compagnie du Midi led the way with its pricey acquisition of Equity and Law in 1987, others would certainly follow; and they could be counted on to go the Anglo-Saxon route of bidding for talent outright, rather than tying it up in knots of cross-shareholdings in the Continental manner.

Unfortunately for shareholders, Compagnie du Midi turned out to be more of an independent than a trend-setter. The big European companies kept busy among themselves, but none of them launched the expected UK mega-bid. And over the past few months, there are signs that the likes of Allianz and Generali have begun to think the UK market quite dear enough even before the wooing starts. The prospect of a tougher tax regime for the UK industry is the sort of thing which could stop many a company crossing borders which it can avoid – even if the tax threat did not come at a time of vastly increased competition in the UK financial services industry overall.

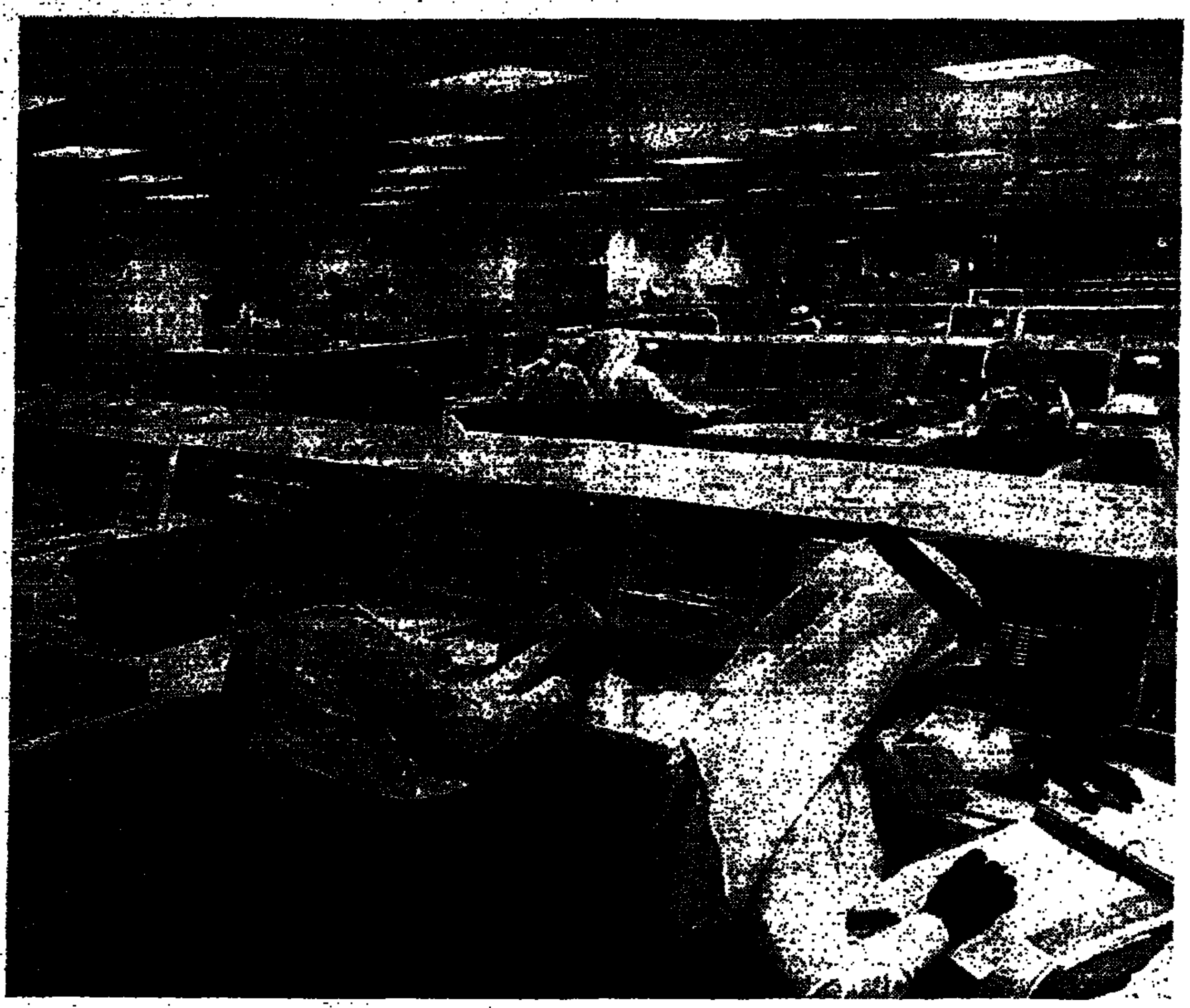
All this does not mean that shareholders in some of the smaller or more vulnerable companies – London & Manchester, Legal & General, and especially Pearl – can write off all prospect of corporate goings-on. But in general, defensive share swaps of the sort that so angered Sun Life shareholders recently could be more the rule than outright bids; and there is little reason to assign a premium to that sort of activity.

SECTION III

FINANCIAL TIMES SURVEY

With the end of the Gulf war, Arab bankers hoped that peace would lead to the regeneration of economies in the region but soft oil prices have meant that the good times are still some distance away. Michael Field looks at what is being done to hasten that day

First the good news



Workers at the NCB office in Jeddah, Saudi Arabia

Arab Banking

CONTENTS

THE GULF States and Saudi Arabia heard in July the first major piece of good news they have had for several years. Iran and Iraq agreed to a cease-fire in their war, which had been raging since 1980.

The war cost Saudi Arabia and Kuwait an undisclosed number of billions of dollars in aid to Iraq. It destroyed Kuwait's important re-export trade, led to terrorist and missile attacks on Gulf civilians and oil installations, and caused the region to be subjected to a barrage of Iranian propaganda aimed at creating, or widening, divisions in Arab society. It threatened always to involve the Gulf States more directly. It sapped people's confidence and fostered feelings of insecurity and impermanence.

News that the war had come to an end was greeted with an enormous sense of relief. In Kuwait and Saudi Arabia, in particular, it was hoped that peace would lead to the regeneration of stagnant economies.

Now these hopes have been dampened by falling oil prices, which, ironically, have been caused by Iraq and the Arabian peninsular states increasing their production, so that when Opec eventually discusses a new set of quotas they will be able to negotiate from positions of strength.

It is accepted that a surge in Government spending may still be many months away. The spin-off from reconstruction in Iran and Iraq likewise is being delayed by the difficulties in peace negotiations, the political confusion in Iran, and Iraq's overhang of debt.

The changes in the mood of the Gulf business community and population are reflected in the mood of the banks. Bankers say that they are now definitely through the worst of the recession that has enveloped them since 1984, when the decline in oil production first fed through to government spending. The cynical comment would be that the bankers have been saying the same for the last two years - but this time they have genuine cause to sound more optimistic. Not only are they as happy as everyone else about the prospect of higher government spending; they can point to the higher profits they have been announcing in the last 12 months.

In Kuwait all of the banks paid cash dividends to their shareholders at the beginning of this year, and in Saudi Arabia most of the banks reported higher profits and smaller provisions. The trend has continued in their 1988 interim results. It is now expected that only two of the banks in the Kingdom will not be in the black in 1988.

Much of the improved performance has been brought about by staff redundancies and other cost-cutting measures. The rest is the result of the banks having made provisions for a large part of their likely bad debts and now finding themselves able to keep more of current earnings for their reserves and for shareholders.

In Saudi Arabia, the banks' performance has been helped by the work of the Banking Disputes Committee, which was established a year ago to arbitrate, or give judgments, in cases where banks are suing clients for default. Previously, all such cases had gone to the Shariah (Islamic) courts, where the judges regarded interest as illegal, and, accordingly, had deducted interest due and already paid from whatever awards they made to the banks.

The Committee has the power to confiscate debtors' passports and freeze their bank accounts. More important in the minds of recalcitrant debtors is the threat of publicity. The cases that come before the committee are not announced officially, and such controversial matters are certainly not the type of story that is published in the newspapers in Saudi Arabia. Yet, the Kingdom has an extremely comprehensive "grapevine" and news of the committee's cases circulates widely.

In theory, debtors can appeal against the committee's judgments, but so far nothing has been done about arranging for the appeals to be heard.

All of these means of pressure work very well on small debtors, but they are less effective on important names, both in the royal family and outside. Important people's cases simply do not come before the committee, and the big corporate debt crises are so well-known that the threat of publicity is irrelevant.

In all the Arabian oil states, there are many bankers - people who have devoted large parts of their careers to the region - who are disappointed by what they see as an erosion of moral standards on debt. They say that there are too many people who are members of reputable families and have ample capital invested abroad who simply do not feel any obligation to repay debts they have contracted at home.

There is a worrying tendency for big corporate rescheduling deals to come unstuck the moment the debtors' businesses encounter further commercial difficulty.

The Arabian governments should be more concerned by these developments than they seem to be. They are anxious that their private sectors should take a lead in developing their economies, rather than merely profiting from government spending. And if and when oil prices rise, and economic activity accelerates, they will want banks to be providing credit.

In their present mood, bankers, both in the Arabian peninsula and outside, say they will be reluctant to give loans to Gulf and Saudi businessmen in future, except in cases where the names are above reproach or where they can arrange good collateral abroad.

Where the banks are expanding their activities at present is in off-balance sheet transactions. The emphasis is on private banking - which partly means servicing their best customers abroad - and on selling mutual funds. There are now between 20 and 30 funds which bear the names of Arab banks and are marketed by them, but mostly are managed by institutions in London.

A potentially more important line of business which has been emerging in the last 12 months is in lending to the Arabian peninsula governments which are borrowing for the first time. The Kuwaiti Central Bank, since November, 1987, has issued about $4.5bn of bonds and bills, and the Saudi Arabian Monetary Agency has issued about $5bn of 'development bonds'.

The idea of the issue was announced in Saudi Arabia at the beginning of the year, at the same time as the budget, but, because the very idea of government borrowing is regarded in the Arabian peninsula as slightly shameful, as if it were an admission of weakness, and because borrowing inevitably involves the embarrassing matter of interest, the beginning of the Saudi bond issues was delayed until mid-summer. The solution that has been found to the interest problem involves the bonds yielding an income based on an undefined concept called project cash flow, which works out month by month to be very close to the rates paid on US Treasury bills.

In both Kuwait and Saudi Arabia, almost all of the bonds issued so far are being held by banks or other public or state institutions, but in due course, if the governments continue to borrow, it is expected that they will be sold on to private investors and a secondary market will develop.

On a smaller scale, the governments of the UAE and Bahrain have been making short-term borrowing from their banks, and it is believed that these borrowings may be expanded and organised in a form that will allow private investors to hold some of the governments' debt.

There seem to be three clear opportunities for Arabian peninsular banks in the trend towards borrowing by Arab governments.

First, they can develop domestic secondary markets for the debt of their own governments.

Second, they can organise the issue of debt by some of the other more credit-worthy Arab governments - Algeria and Jordan - for example. These governments have a good enough credit rating for their debt to be in the form of securities, which Arab banks can organise and market, both at home and internationally.

Third, Arab banks can lend to the next tier of government, in Egypt, Iraq and Yemen, for example, which are not good enough risks for their debt to be securitised and which, for that reason, would pay better-than-average rates. The banks' position would be made more secure by the fact that some of them, the consortia, such as Gulf International Bank and Union des Banques Arabes et Francaises, have the same Arab governments among their shareholders.

The broad judgment of Hikmat Nashashibi, the chairman of the Arab Bankers' Association in London, is that Arab banks must "reorientate" themselves.

"Instead of being channels for private sector surplus capital," he says, "they must become agencies for borrowers -state, not private - while the Arab private sectors remain dormant."

Pulling clear from morass of bad debts

Sama lends a hand

SAUDI ARABIA'S 11 commercial banks are showing some signs of pulling out from under the morass of bad loans and enforced retrenchment of the last three years, but their recovery is based more on continued cost-cutting, improved recovery of bad debts and a general decline in provisions than on any quality new business.

The banking system has, however, had some belated but significant support from the Saudi Arabian Monetary Agency (Sama) the central bank - not only in the establishment of the three-man arbitration panel to help resolve bad debts but in other ways as well.

Banks are now allowed to take mortgages as loan security income tax is no longer payable on profits transferred to provisions and the withholding tax payable since 1983/84 on Saudi businessmen's borrowings from offshore banks - principally in Bahrain - has been abolished, thus restoring some momentum into the Saudi riyal market.

But it is Sama's arbitration committee on delinquent borrowers which has given banks the most encouragement in restoring some depth to their loan assets, to the extent that "net recovery is now exceeding the increase of loans still being classified as non-performing" as one banker put it. "Much better than nothing", is the way Mr Essam El Sarie the Saudi-French bank's secretary-general described the committee.

The others are the Judicial Settlements Committee, which operates in the traditional and preferred method of quiet consensus between two parties acting in good faith and the Islamic Sharia courts which are fundamentally hostile to any institution operating on the basis of interest.

It has been the threat of action by the Sama committee as much as punitive action itself which has caused debtors to be more willing to reach agreements with the banks.

In addition, banks operate their own 'blacklist' of faulty debtors from whom new credit facilities will be withheld by other banks so long as no settlement has been reached with the plaintif bank. Actual cash recovery following a Sama judgment is still "rather disappointing" according to one banker in Riyadh, even though the office of Riyadh's governor Prince Salman Bin Abdul-Aziz has been notably supportive when it comes to a bank enforcing a promissory note or attaching assets belonging to a recalcitrant borrower - particularly one trying to hide behind his rank.

Cash at your fingertips 24 hours a day

It is a process which is painfully slow for some bankers not reconciled to the Kingdom's traditional way of doing business. Official claims that the country operates a free market economy are misleading. Rank, privacy, tradition, exaggerated deference to higher unseen authority, values and attitudes rooted in the country's past, all compete with the accepted bricks-and-mortar banking standards applicable in OECD countries.

Last year six of the 11 commercial banks - National Commercial Bank, Saudi British, Saudi Cairo, Bank Al-Jazira, and United Saudi Commercial Bank reported losses or zero profits. Two others, Riyad Bank and Saudi French reported reduced profits four - Saudi American Bank, Arab National, Saudi Dutch, and Saudi Investment Bank - reported profits up or made a profit following a loss the previous year.

By contrast, first-half figures for this year showed some healthy net earnings at nine out of the 11. Third quarter figures so far available suggest the trend to improved earnings is continuing. Saudi French Bank reports unaudited net earnings up 26 per cent to SR57.4m (£9.1m) compared with the first nine months of 1987. Saudi American Bank's net earnings are up nearly threefold for the same period to SR174.1m. Saudi Investment Bank more than doubled its profits to Sr14.3m. Unaudited figures show provisions unchanged at SR30m and loans down by 3.8% to SR730.5m.

United Saudi Commercial Bank has taken on a new lease of life following the installation of a new board chaired by Prince Alwaleed Bin Talal Bin Abdul-Aziz and a new general manager, the experienced and ebullient former Citibank executive Mr Gerald Kangas, the first director of Bahrain's bankers Training Institute.

Net losses of SR16m in 1986 and SR14.8m in 1987 had been reduced in the first half of this year to SR1.87m, but now USCB is expected to report a profit for the third quarter and show a dramatic recovery over the full year.

Real growth however, as opposed to pruning costs and recovering bad debts, still depends, firstly on the level of government revenue and spending and secondly, the creation of financial instruments to inject new life into the non-oil private sector.

The first case looks bleak, given the downward trend in oil prices, but in the second there is at least some movement.

According to Sama, the non-bank private sector had, by the end of last year, accumulated some $64bn abroad. In addition, commercial banks had some $20bn held abroad. These assets, Sama's report asserts with bland optimism "constitute a prospective pool of resources which can be drawn upon by the private sector to finance its future economic expansion."

The process has started - haltingly - with the first issues last June of Sama's so-called Development Bonds. Short-term security deposits, in the form of 30-day riyal offerings, already existed before the first development bond issue took place on June 11. The 'development' bonds however were a new departure, and are designed to help cover most of the government's budget deficit this year, which looks like being anything from SR30bn - SR40bn depending on oil prices and the government's actual expenditure.

To assuage religious sensibilities which forbid the collection or payment of interest, Sama issues the bonds at a discount to face value and links them to unspecified development projects which pay a 'commission' or 'shared profits'.

The difference between the actual amount paid by investors (initially only the banks themselves) and the bonds' face value represents the yield to purchasers, payable twice a year. Bankers were left to do their own yield calculations - to date the bonds have been at some 20-60 basis points above similar dated US Treasury notes. Sama said it would repurchase up to 10 per cent of the value of the bonds in a bank's portfolio.

The bonds - SR1.5bn at a time - have been issued roughly once every two weeks since June 11. They will continue to be offered until the SR30bn target - the lower end of the estimated budget deficit - has been reached.

The banks' response has not exactly been overwhelming. The first issue netted SR1.1bn from the banks themselves - the balance was taken up by the state's Civil Service Pension Fund and the General Organisation for Social Insurance.

The second issue netted only SR900m from commercial banks the third SR800m or just over half the offering subsequent issues over the last three months have each fetched SR600m or less.

Part of the reason for the banks' reluctance has been the long maturity dates - one-five years - when the majority of banks liabilities are short-term deposits. Progressive devaluation of the riyal is also a deterrent in quite ministerial denials of any such possibility. But a great deal of the banks' lukewarm response is due to the absence so far of a secondary market.

Now a committee of five banks - NCB, Riyad bank, Saudi American, Saudi British, and Saudi French - began meetings in mid-October to draft proposals to be submitted to Sama on how the secondary market might operate.

Already the bonds can be sold to individuals in denominations of not less than 1m riyals, but a genuine secondary market will be the litmus test of the bonds' relative success or failure.

Robin Allen

UNITED ARAB EMIRATES

Waiting for upturn

SHORT of two fundamental developments - both extraneous to regional financial markets - all Gulf commercial banks including those in the United Arab Emirates face several more years of unexciting prospects.

The first development which could obviously start the adrenalin flowing again is a simultaneous rise in Western countries' oil consumption and oil prices. This, if it happens, would increase UAE Government revenue and with it confidence would return.

This looks only slightly less likely than the second scenario: a surge in UAE re-exports and lending opportunities caused by massive reconstruction spending in Iran and Iraq.

This, particularly should Iran start easing credit restrictions, would enable UAE banks to refinance construction.

But apart from a wave of euphoria which briefly swept the UAE after the Gulf war ceasefire went into effect last month, nothing of substance has happened this year which suggests UAE banks can dig themselves out of the trench they have been in for nearly five years.

The UAE of itself - with a population of only 1.6m at the outside - is simply not big enough to justify 17 local and 21 foreign banks. Good new lending opportunities are few and far between; national and regional capital markets are non-existent. So banks are left with existing business. This is good enough for some of the better established local and foreign banks; British Bank of the Middle East for one reports that its UAE operations account for the majority of its Gulf regional earnings.

But for most banks however and Emirate Governments as well, it is still proving difficult to come to terms with a fundamental change in banking prosperity which started five years ago.

In Abu Dhabi bad debts remain a problem for both local and foreign banks despite two government decrees last year that seemed as though they might ease the problem.

More dramatically National Bank of Abu Dhabi, traditionally one of the strongest banks in the local market, was - finally - forced to come to terms last year with its Latin American debts as well as losses incurred through its Washington subsidiary, Abu Dhabi International Bank, whose profits dropped 58 per cent compared with 1986.

Among foreign banks Standard Chartered's profits fell last year by nearly half, and Citibank's fell by Dh43m (£7m) for the second year in succession. Another major foreign bank, Bank of Credit and Commerce International, increased its profits last year by Dh6m to Dh18.19m (£2.95m), but was forced to continue large scale write offs.

Among local banks, National Bank of Sharjah - a weathervane of banking health in the northern emirates - reported a 12 per cent increase in net profits but only at the cost of lowering provision for bad and doubtful debts by 78 per cent.

More symptomatic of the general malaise was the decision by another Sharjah bank, United Arab Bank, to put all its reported 300 per cent increase in profits into reserves.

The bank's chairman, Sheikh Faisal bin Sultan al Qasimi, said it all in his statement to shareholders. Such a move, he said: "Would result in increasing the total of our shareholders' equity to some Dh150m (£24.4m) and we believe that such capital funds would then be at a sufficiently comfortable level to allow us to deal in future with any unforeseen contingency."

A precursor of things to come was the $50m loan agreement signed last April by Abu Dhabi Commercial Bank and Abu Dhabi Investment Company to Vneshecanambank, the Soviet bank for foreign economic affairs.

Sheikh Suroor bin Sultan al Dhahiri, chairman of the Abu Dhabi Commercial Bank, said last month that he was prepared to consider fresh credits and to finance joint ventures with Soviet partners. All of which is grist to the mill of the Soviet Government in its efforts to woo Gulf states.

But it does little to help restore the health - let alone improve the bottom line - of local UAE banks.

Robin Allen

Jordan takes steps to halt slide in value of currency

Bankers look to Iraq for boost to economy

"WHAT WE have here is really a cash flow problem," said the Jordanian banker, when referring to current pressures on Jordan's economy.

The depreciation of the Jordanian dinar, by more than 20 per cent against the SDRs in the past year, reflects these pressures. Jordan's balance of payments position continues to be weak, and there is no reason to expect a quick turnaround in the absence of new sources of foreign aid.

The rapid depreciation of the dinar this year has forced the authorities into a series of measures to halt its slide and put a stop to a worrying bout of capital outflow. Jordanian bankers report that clients have been moving out of dinars for most of this year, and the process accelerated following King Hussein's dramatic announcement on July 31 that he was severing legal and administrative links with the West Bank and Gaza Strip, home of 1.5m Palestinians.

Among measures adopted by the Central Bank of Jordan (CBJ) was to float interest rates in an effort to encourage depositors to remain in dinars. The CBJ cracked down on money-changers, of which there are some 87 licensed operators in Jordan, who had been acting as a conduit for funds flowing out of the country.

The money-changers were expressly barred from accepting deposits, extending loans, making transfers, issuing chèques abroad, opening accounts overseas and speculating in international equity, metals or commodity markets. Banks were also instructed to adhere strictly to regulations, limiting the amount of money per person that could be transferred from the country.

These, and other, measures had, by early October, slowed for the time being the rate of depreciation of the dinar, but bankers and businessmen believe that unless Jordan taps new sources of foreign aid the dinar will almost certainly weaken further. Jordan is heavily dependent on annual subventions from Gulf states.

Saudi Arabia, under the Baghdad Arab League summit agreement of 1978, has been providing Jordan with $357m in three instalments annually, but the Saudi Arabians have been the only reliable donor. Other Gulf states such as Kuwait and the United Arab Emirates have provided assistance either in cash or in kind (oil) on an irregular basis.

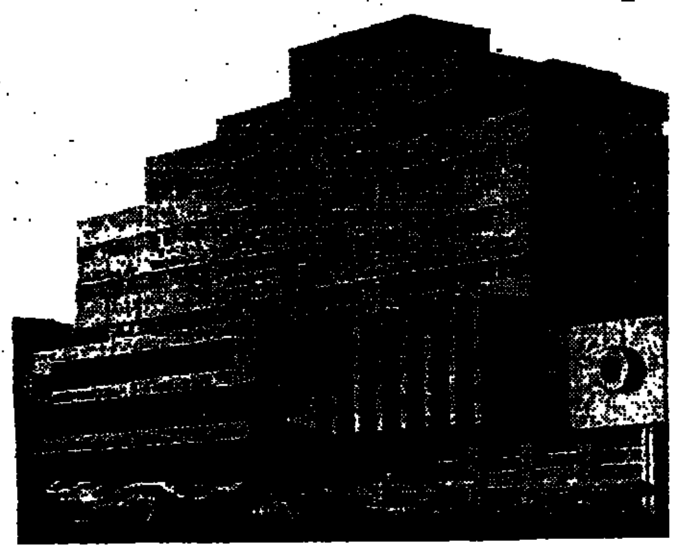
A worry for Jordan is that the Baghdad agreement expires at the end of this year, and while Saudi Arabia is expected to continue with its assistance, the absence of a formal arrangement could prove sticky. If oil prices continue to be soft then Jordan's chances of getting additional aid from the Gulf would not be good.

Jordan's foreign currency reserves stood at $56.8mn in July, according to the latest International Monetary Fund figures. This compared with a low of $18.7mn in June. Jordan's reserves have steadily diminished in the past several years to the point today where they are barely sufficient to cover one week's imports.

Dr Maher Shukri, deputy governor of the CBJ, said that Jordan was going through some difficulties, but at the same time he insisted that the country's financial problems were being exaggerated. He said the 6-7 per cent differential between the Central Bank rate for the dinar against foreign currencies and that offered by the money-changers was significantly less than the gap that prevailed in the 1970s.

Dr Shukri believes that once Jordanians have re-assessed the situation and overcome their nervousness about recent political developments, "most of the the money that flowed out will come back." Foreign and local bankers are not so sanguine. Most believe that it will take some time before funds are repatriated, and this will not happen in the absence of clear evidence of an upturn in Jordan's economy.

An additional worry for Jordan at present is the evidence of a drop in workers' remittances coming into the country from some 330,000 Jordanian abroad, most of them in the Gulf. After a strong inflow in the early part of the year – the first quarter was up 33 per cent on the corresponding period in 1987 – the volume has dropped back, especially following King Hussein's July 31 announcement.


New bank offices in Jordan's capital Amman

Jordan's commercial banks have returned mixed results in the past year. Established banks such as Arab Bank, which has 27 per cent of the Jordanian market, have performed creditably in a testing environment. Several of the smaller banks have encountered difficulties, due to continuing problems with bad debts, mostly in the depressed construction and transport sectors.

In 1987, the Jordan-based Arab Bank returned net profits of $82.0m, or an increase of 7.8 per cent over the previous year. Total assets increased 6.7 per cent to $13.5bn. About 17 per cent of Arab banks' balance sheet derives from its activities in Jordan, 40 per cent in Europe and 30 per cent in the Gulf.

If there is a trend in the highly competitive, and some would say overbanked, Jordanian market, it is towards trying to attract business from small to medium-sized entrepreneurs. All banks have suffered sizeable losses from their involvement with bigger operators, mainly in the construction sector.

Most bankers, like other businessmen in Jordan, are looking to Iraq to help provide a critically-needed boost for the Jordanian economy. This will depend to an extent on the oil price firming and Iraq's reconstruction phase beginning in earnest. A firmer oil price would also alleviate Jordanian worries about being repaid the approximately $540mn, owed by Iraq.

Dr Shukri indicated that Iraq was now paying money owed in bigger instalments as a sign of good faith. Jordanian bankers and businessmen hope it continues that way.

Tony Walker

SAUDI CAIRO BANK

Challenge for new chief

THE new chairman of Saudi Cairo Bank, has a penchant for cartoons to illustrate the bank's troubled past.

"I'm just a manager. I don't do any actual work," says a portly type to the wife of a colleague in one of Mr Wahib Binzagr, portfolio of cartoons. "They told me you always come late so I left your office till last," says a bedraggled office cleaner to the manager in another, while both survey the mess on desk and floor. By contrast the future that the new chairman has in store is enshrined in pithy sayings such as this Chinese proverb: "Tell me and I'll forget Show me and I may remember Involve me and I'll understand."

Mr Binzagr who has been chairman since July 1 is the first to acknowledge he is not by training a banker. But his philosophical and somewhat bemused outlook barely conceals a managerial talent sharpened by years as the prominent member of a highly successful family trading company which for consistency and the quality of its diversified assets is one of Jeddah's success stories.

An economics graduate of Durham University and a former mayor of Jeddah, he also remains a director of Riyad Bank, the Kingdom's second largest. His diplomatic manner also conceals some forthright criticism on the country's shortcomings which prevent it from playing its role as a major player in the world economy.

Saudi Cairo has been piling mess upon mess in its nine years existence. Chronic mismanagement, which evidently lay undetected for years, as well as the usual bag of nails in among its loan assets had almost brought the bank to its knees more than once.

Formerly Banque du Caire, it became Saudi-ised in 1979 in the traditional 60/40 Saudi-foreign partner pattern. In the first three years it lost more than SR400m (£63.5m) on gold and silver dealings, although the losses were not confirmed in the bank's accounts until last year.

In June 1987 the bank's capital was doubled and at the end of last December doubled again to SR600m when the state-owned Public Investment Fund injected SR300m. Banque du Caire's shareholding is now only 20 per cent. Local shareholders own the remaining 30 per cent.

In 1985, the bank's net earnings were zero and from then on things got worse. Reported losses in 1986 and 1987 were SR59.7m and SR33.2m respectively. The only apparent reason its losses were not greater last year was that it was unable to make any provisions for bad loans - and the reason for that as the auditor pointed out, was that the bank had run out of money.

Saudi Cairo's losses continued to mount through the first half of this year. It actually reported net earnings of SR3.6m and SR8.1m respectively in each of the first two quarters, but these figures excluded provisions. Finally Mr Binzagr was put in to stop the rot.

One of his first moves was to appoint one of the Kingdom's proven bankers, Mr Mohamed Daghistany, as general manager. Mr Daghistany was largely responsible for restoring to health Saudi Investment Bank.

SAIB is a hotchpotch of disparate minority shareholders including Chase Manhattan, Saudi Arabia's National Industrialisation Company, National Commercial Bank, Riyad Bank, the General Organisation for Social Insurance, Bank Al-Jazira, the Industrial Bank of Japan, J.Henry Schroder Wagg and the Saudi public, which together make up what is possible a fair training ground for sorting out Saudi Cairo.

Fortunately for the government and for Saudi-Cairo, the new chairman and his general manager see eye to eye on what needs to be done.

"This is an institution that has all the necessary elements for a sound organisation," Mr Binzagr said earlier this month.

Indeed it has the capital, a new shareholders commitment, a loyal customer base and a decent branch network.

Mr Binzagr added pointedly: "Now it needs management leadership and a clear understanding by staff that unless their efforts result in increased net value of all the resources of the bank, then their position is not secure. And if this is repeated throughout the economy then the country will not be able to achieve its social and economic aims."

The bank, about 1,200 strong, down from about 1,500 three years ago, is still overstaffed by 35-40 per cent, says the chairman. But it is not his style to fire staff - rather he wants to motivate them into producing better results inspired by an efficient management, thus saving their own jobs in the process.

The bank had suffered from "Balkanisation" to use the chairman's term, with no less than 58 per cent of its labour force considering itself to be on the senior level of management and being allowed to do so. There was no "second level" at all, only a third level of clerical staff. What is needed now, he says, is to fill the second level of divisional and branch managers and instill a discipline lacking until now.

The new team and fresh attitudes are now being put in place. One of the first senior managers to be brought in, as assistant general manager of the international division is Andre Van Hove, a Belgian formerly with Riyad Bank.

"It may take 10 years to pull the bank round," Mr Binzagr said. "Six maybe five would be a bonus."

Training at divisional and branch levels has been intensified to improve middle management performance meetings are now held regularly and frequently between these two levels as well as between Mr Daghistany and his divisional managers and possibly most important the new chairman meets every day at the beginning of the day with his general manager.

While 10 years or six or even five seem a long time, Mr Binzagr is not so much concerned with specific deadlines as to instill confidence in staff and customers that the bank has at last leadership worthy of the name and a sense of purpose. But for the trader turned banker it is a tough assignment.

Robin Allen

ARAB BANKING 4

Treasury Bills and Bonds are issued

Kuwait innovation

THE MAJOR banking innovation in Kuwait during the last 12 months has been the Central Bank's issue of Treasury Bills and Bonds.

The purpose of the issue, and of similar sale of government securities in other Arabian peninsula states, has been to raise money for government expenditure. This is a purpose which one would take for granted anywhere else in the world, but which in the Gulf and Saudi Arabia is a novelty.

The Kuwait issue began last November and by the end of the 1987/88 financial year, in June, the amount had run almost to the Central Bank's announced limit of KD1.4bn ($4.5bn). The treasury bills, which have 91-day maturities, pay between 3.7 and 5.25 per cent and the bonds, which range from 1 to 7 years, a 5 to *7.5 per cent.*

Any person or institution, resident or non-resident, can buy the instruments, but it is estimated that so far 90 per cent of the issues have stayed with the banks and investment companies.

The Central Bank has said nothing so far about raising its KD1.4bn, but if it is obliged to make further issues and the institutions begin selling them because they find they are holding more than enough for their surplus liquidity, a genuine money market might begin to develop.

In other respects the last year has been uneventful for the Kuwaiti banks. The debt settlement programme, which the Government introduced in September 1986 to cure the economic and banking paralysis stemming from the stock market crash of 1982, is now nearly complete.

As part of the settlement programme the Central Bank has placed fluctuating amounts of between KD500m and KD600m with all the banks, except the National Bank of Kuwait. Its purpose has been to prevent the bank's provisions eating into their capital and published reserves.

Thanks to this help all the banks paid dividends to their shareholders at the end of last year, but only NBK has had the funds to expand its operations.

Lending opportunities at home have remained small for all the banks. For the last three years the Government has been holding its spending at about KD3bn ($10bn).

Now that the Gulf War has finished the business climate is much more optimistic, and in one or two business sectors there have been surges in activity caused by Iraqi merchants' buying. Once reconstruction starts in Iran and Iraq it is assumed that Kuwaiti companies will benefit to the tune of an extra $1bn of trade, but it is accepted that it will be many months before this business materialises.

Michael Field

GRANTS AND LOANS

Drop in aid levels

SINCE THE peak of the oil boom in 1981 the international aid given by Kuwait has dropped from $11.16bn to $302m - though this still represents nearly 2 per cent of the state's gross national product.

These figures which cover *net annual outflow after deduction of repayment*, are comprehensive. They include grants and soft loans given for budgetary support by the finance ministry and central bank, loans and capital contributions to development institutions *extended by the Kuwait Investment* Authority, the soft project loans and grants of the The Kuwait Fund for Arab Economic Development (KFAED), and aid given in kind as crude oil and products.

No other Arab country publishes statistics of this sort, but it is assumed there have been similar reductions in the flow of aid from the other two big donors, Saudi Arabia and Abu Dhabi.

The biggest parts of Arab aid flows traditionally have been the finance ministries' grants and loans to other Arab governments with the major recipient in the last five years being Iraq. But the most visible and most easily analysed type of aid has been that given by nine development banks.

Of these five are multinational institutions: The Arab Fund for Economic and Social Development in Kuwait, The *Arab Bank for Economic* Development in Africa (ABEDA) headquarters in Khartoum, The Islamic Development Bank in Jeddah, The Arab Monetary Fund in Abu Dhabi and the Opec Fund in Vienna. A further four national funds are operated by Kuwait, Saudi Arabia, Abu Dhabi and Iraq. The *total resource base of these institutions* is $15bn.

Since 1984 only three of the funds - the Saudi and Kuwaiti National Fund and The Arab Fund for Economic and Social Development (AFESD) - have been major donors. Of the others, ABEDA and The Islamic Development Bank have been *moderately active*, but *the* Iraqi fund has ceased business. All of the funds that are still operating work closely with each other and much of their lending is done on the basis of feasibility studies carried out by the KFAED or AFESD.

The funds say that although they have been making smaller commitments in the last three years - and, when one takes the payments into account, have been disbursing only a fraction of the "new money" they were disbursing in the early 1980s - the demand for their loans is less than it was.

There is now less emphasis in developing countries on building new projects and taking on ever larger amounts of debt, and more on trying to make economies more efficient and stimulating private-sector activity.

Potential recipients have also been short of money to finance the domestic part of the cost of new projects - and most of the Arab funds, as a matter of policy, will lend only to finance projects' foreign exchange costs.

The response of the best managed and most indepen*dent of the Arab and Islamic* funds to the fall in their shareholders' oil revenue has been to try to make themselves financially self-sufficient. This has been the policy of the KFAED, AFESD, The Islamic Bank, ABEDA, The Arab Monetary Fund and the Opec Fund.

The Kuwait Fund used to receive between KD30m and KD75m ($82m - £158m) of new capital every year from its government but in the last three years these grants have ceased.

The Arab Fund last received an increase in subscribed capital in 1982. This was not paid *immediately* but it has been able since to persuade most of its shareholders to raise their contribution to near their commitments. It now has a subscribed capital of KD700m and paid up capital of KD644m.

The strength of these two funds, and of some of the less active institutions, is that their resources cost them nothing. Unlike the World Bank they have never borrowed, though most of them are allowed by their charters to do so. They are now able to live off the income from their investments and loan repayments.

Their *total* resources, build up from investment income and the modest 2 per cent or so that they levy on their loans as a service charge, are now far greater than their paid in capitals.

The Arab Fund has total resources of KD1bn. Last year, *when it did not benefit from* any further payment of capital, *it received loan repayments of* KD25m and other income of KD28m. It had operating expenses of KD3m, which left it with KD50m to disburse in new loans and grants.

Abdlatif al Hamad, director-general, a former Kuwaiti finance minister and founder of the KFAED, has done projections of the Fund's cash position over the next 30 years and has determined that even if he makes the term of his loans softer still the equilibrium of the fund's operations will not be affected.

As the amount received back from aid recipients became smaller, the outflow to these same recipients would become smaller as well, because it is the fund's policy to try to balance the inflow and outflow of loans to and from each recipient country.

In effect the KFAED and the AFESD have turned themselves into endowment which, barring unexpected upsets, operate in perpetuity.

Coinciding with the decline in the volume of new capital they are putting into loans and the reorganisation of their finance, the funds are slightly changing the type of aid they give.

Both the Kuwait Fund and, particularly, the Arab Fund would like to invest more money in social projects, because it is widely realised that unless human resources are developed much other *development spending* will be in vain.

Algeria, Morocco and Tunisia

A time of reform

THE THREE Maghreb countries are currently in the throes of major economic reforms which have been *brought about by the decline* in foreign income they have suffered *over* the past five years and the need to rein in the growing deficit of the state sector.

One of the three, Morocco, which had suffered negative capital flows both in 1986 and *1987, had to reschedule its for*eign debt as early as 1983. Both Morocco and Tunisia have resorted to borrowing from the International Monetary Fund.

Although Algeria, the largest of the three, has so far avoided an IMF programme, *let alone* rescheduling, it has launched reforms which are not dissimilar to those urged upon the other two by the Fund. Austerity is biting hard, despite the very orthodox manner in which it has managed its foreign debt, and the fact that this year it has been able to raise about $3.8bn abroad, the equivalent to its principal debt repayments. The recent riots in Algiers bear ample witness to the growing unemployment and decline in purchasing power.

All three countries are meanwhile trying to reduce the claims made by the state or state companies on domestic capital resources and inject a measure of "liberalism" into their respective banking systems. *Tunisia is, in many* respects, more advanced than the other two. A real money market was initiated last January which has put deposit instruments of varying maturities at the disposal of banks and private companies.

One major reform confronting *the Tunisian authorities* is that of the banking system where two many banks vie for too little business and where the rationale behind different kinds of banks, notably the development, has become very confused indeed.

Tunisian reforms may succeed because they are led by a man of high integrity and considerable staying power, Mr Ismail Khelil, who is governor of the Central Bank.

Measures aimed at liberalising exports, and allowing those who export to keep some of the hard currency they earn, have also been welcomed. However, the government's very real success in cutting back the budget deficit, while being *ahead of IMF* suggested targets, is having a serious effect on jobs. Tunisia has managed its foreign debt with great prudence, and better rainfall this winter than last and a further growth in tourist receipts should give the authorities some room to expand the economy in 1989.

Neighbouring Algeria, for its part, is caught between a declining oil price (hydrocarbons account for more than 95 per cent of export earnings) and the fact that low productivity, mediocre quality and an artificially strong currency making the exports of manufactured goods virtually impossible.

Although attempts have been made to liberalise bank*ing in Algeria (the decision* to allow Algerian residents to hold foreign currency accounts is a notable example) opening up what remains an extremely rigid and bureaucratic system is proving a difficult task.

Having seen their country's foreign income decline by half since 1965 to an estimated $6.2bn this year, Algerian leaders have little room for *manoeuvre* yet their very conservative foreign debt management and their ability to push through unpopular reforms have earned them respect abroad.

Morocco is coming to grips with large state deficits, but King Hassan is a cautious player, unwilling to unwind the network of loyalties which bind all well-known families to the Alaoui dynasty. Despite these constraints, measures have been taken to reduce the budget deficit and allow prices to reflect, more accurately than hitherto, the real cost of food and certain services.

Francis Ghilès

The Kuwait Investment Office

Working in the spotlight

FOR THE men managing Kuwait's huge foreign investments, the past year has been the most tumultuous in the three decades since the state started setting oil income aside for the future.

The Kuwait Investment Office has been in the glare of publicity as never before, indulging in high-profile raids on the Spanish stock market. More seriously, it has been embroiled in a damaging political controversy, both at home and abroad, over the big stake it built up in Britain's largest company, British Petroleum.

After a row between KIO and the British Government, the Kuwaiti stake in BP was referred to Britain's Monopolies and Mergers Commission. Earlier this month, the MMC ordered a reduction in the holding from 21.7 per cent to less than 10 per cent, provoking an angry reaction from the Kuwaitis.

The affair has thrown the spotlight on the way Kuwait conducts its investments, and on the contrast between its policy and that of other wealthy Gulf states.

In theory, it is normally central banks that are charged with managing states' reserves. This is not always true or clear in the oil-rich countries of the Gulf, where reserves far exceed the amount needed to cover their currencies, and even predate the existence of their central banks.

In the case of Kuwait's investment office, now one of the world's largest investors, it predated not only the evolution of an independent central bank or a separate department or Ministry of Finance, but of the states' independence.

According to critical Kuwaitis, it started in 1953, with British pressure on Kuwait's then-ruler, Sheikh Abdullah al-Salem, to deposit £18m, part of Kuwait's surplus of oil revenues, in his name, for investment purposes in an account with the Bank of England.

"Encouragement is a better word," says an expert close to the Bank of England. "As I remember it, what was said to the Kuwaitis then, was that since the size of their oil resources and future of oil prices were unknown, why not put aside a percentage of their income as a reserve? It proved to be of immense benefit."

Another British expert conceded, however, that "it may have been, in the early stages, a cheap way of getting oil for paper...Treasury bills, etc."

Things changed very quickly, however. A few years later, the Kuwaitis started employing the best money managers in the City of London and established the Investment Board, in Kuwait, to institutionalise the investment policy.

After Kuwaiti independence in 1961, a new department in the then-Joint Ministry for Finance and Oil was established to manage Kuwait's investments abroad. The department was headed by Khaled Abu Al-Saud, a shrewd Palestinian - believed to be the one who shaped the present form of the KIO - and has remained one of the staunch supporters of its autonomy during the many storms it has experienced inside Kuwait lately.

Kuwait has had two separate reserve accounts since 1976. Both include investments abroad.

The first is a state general reserve fund, estimated to be worth KD8bn (£18bn) and consisting mainly of investments inside Kuwait itself, including the Government's stake in other investment companies, like Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC) and Kuwait Investment Company (KIC).

The other, the Reserve Fund for Future Generations, is also unique. After the oil price increases of 1973, the present ruler of Kuwait, Sheikh Jabar Al-Ahmed, at that time the Crown Prince and Prime Minister, initiated an act of law, which the Cabinet passed in 1976, to establish a new reserve fund.

The second article of the Act stipulated that, as an alternative to revenues from oil, the main and depletable source of the country's income, a new account would be opened, starting with 50 per cent of the state's existing reserves, to which 10 per cent of the state's oil revenues yearly is added. Nothing can be spent from those funds or the income they generate until the year 2001.

What this fund is worth is not known, and subject to much dispute, it is estimated though at about KD14bn. Most of it is managed from London by the Kuwait Investment Office.

KIO's success, compared with other Gulf investment funds is primarily due to the heavy weight of equity in its asset mix, according to Hikmat Al-Nashashibi, chairman of the Arab Bankers' Association in London.

He said: "They (KIO) had the prudence to be in the equity market when they did. Five years of bull markets, those tremendous rallies in the world's share prices, have helped boost the office performance."

Between 1977-82, KIO doubled its disclosable stake in British companies (5 per cent or more), and, as it entered the 1980s, equity is said to have made half of its portfolio.

At first, most of the buying was in shares of financial companies. Now its equity portfolio also includes large holdings in food, paper and chemicals, as well as other holdings in the industrial sector of the market.

The Saudis, in contrast, took a rigid position in investing their huge income surplus estimated now to be between $70bn to $80bn, compared with an estimated $145bn in 1981. The asset mix of the Saudi Arabian Monetary Agency, SAMA, has consisted mainly of fixed-income instruments, Treasury bills, and time deposits in prime banks.

Equities have not weighed heavily in their investment portfolio. "The Saudi policy has been concerned mainly with the liquidity factor," explains Al-Nashashibi. "It is income and liquidity-oriented geared at meeting budgetary needs; to be cashable without appreciable loss," he added.

Another difference, as a Gulf economist sees it, is that "nothing much is known concerning deposits or withdrawals of the Saudi funds. There is no accountability whatsoever," he said.

The Abu Dhabi Investment Authority, which was helped by Kuwaiti expertise in its formative stages, has sizeable investments in equity and quasi-equities, according to bankers in London. But, unlike the Kuwaiti model, it is heavily influenced by political rather than economic decisions. For example, funds have been directed towards Pakistan or Morocco for investment because of close political ties with the two countries, explained an Arab banker. Abu Dhabi Investment Authority funds are estimated by Jassim Al-Sadoun of Al-Shall Economic Consultancy in Kuwait, to be worth $18bn, compared with $22bn in the early 1980s.

Qatar has also an investment office in London, with about $5bn of investment funds, compared with an estimated $8bn seven years ago.

All those funds have, in theory, a fundamental difference with the Kuwaitis. They can be drawn down to meet current expenses.

At the early days, when Kuwait was part of the sterling area, most of KIO's investments were in sterling. Then it shifted to dollars, the currency of oil. Today, KIO's investment portfolio is spread mostly in the US, Canada, Japan, the UK, Spain and West Germany.

From the beginning, KIO chose to maintain a secretive and low profile, even within Kuwait. It sees itself as a passive manager of an equity portfolio: that is, while it tries not to go against Kuwait's Arab and Moslem traditions, it is rarely motivated by anything but economic profitability.

But such huge amounts of money cannot be passive. Publicity came with the sizeable chunks it bought in big companies, and more publicity with the recent series of takeover moves in Spain. In response to that publicity, as a rule KIO has remained silent and secretive.

Suspicions of the KIO grew, both at home and abroad. Had the investment office learned much from giant oil companies who endlessly lobby governments in countries where they operate, it would have seen the need for a more community-oriented campaign of self-promotion.

Long before the much-publicised involvement in the BP share issue, the closed shop of the KIO caused much concern within Kuwait. An attempt to remedy this was the creation of Kuwait Investment Authority (KIA) in 1982. Its nine board members are supposed to oversee all investment activities of the country. With the Finance Minister as its chairman, the Oil Minister as its deputy chairman, and the Central Bank Governor as a member of its board, there has been an escalating power struggle behind the scenes to gain ultimate authority over the huge investment institution.

Yet, in spite of the evolution of the separate ministries of Finance, Oil, and independent Central Bank, and the KIA, the KIO has managed to remain, in practice, outside the authority of all of them.

Only after three years of struggle did two of the KIA board members succeed in making Kuwait Petroleum Corporation buy Santa Fe, the US oil engineering concern, from the KIO. They opposed the very idea that the 1982 KIO purchase of the American oil company, which cost $2.5bn, should be considered part of the reserve fund for future generations. "The role of who does what remains undefined still, and the lines of demarcation are not that straight yet," said Al-Nashashibi. "That is a function of KIO's longevity, performance and expertise."

The public embarrassment over the BP issue will definitely add a new dimension to those lines of demarcation, many in Kuwait believe. However, no one expects any radical shift of power among the major players in the KIO.

The BP ruling has given a strong boost inside Kuwait to those voices warning against concentrating investments in the West on the grounds that they are unsafe, and arguing that the state's investments should be geared towards a long-term development policy.

"Kuwait is a state, not a company, a Third World country, a developing country. The bulk of its wealth should be managed in accordance with a comprehensive economic policy based on many other factors besides profitability, not by clever fund managers," said a Kuwait university professor and expert on the KIO.

Robert Ellis

Egypt surprised by growth of Islamic investment houses

Sector faces uncertainty

THESE ARE not the best of times for Egypt's financial sector. It is burdened by continuing uncertainty over government efforts to regulate Islamic investment houses whose spectacular growth in the past three years has taken the authorities by surprise.

Government moves in May to dampen the activities of these large finance companies, known in Arabic as *sharikat tawzif al amwal* literally companies for the utilisation of funds, created something of a hiatus in the financial sector.

Bankers report that business was depressed in the June-September period while the market took stock of the struggle between the authorities and the giant Islamic sector.

"Things were really unsettled," said the head of a large foreign bank. "The Islamic issue created uncertainty and cautiousness in the market, but by the end of August things were starting to pick up."

Islamic companies were obliged by Egypt's Capital Markets Authority (CMA) to suspend trading while a thorough investigation of their activities was conducted. That process continues as government-appointed auditors try to make sense of the records of financial institutions that grew very quickly in a topsy turvy fashion, and whose principals had little or no experience of running large enterprises.

The government has set a notional deadline of November for these institutions to declare whether they are able to comply with new regulations that impose similar controls over their activities as those applying to the banks.

Auditors are reportedly facing an almost impossible task unravelling the financial affairs of the Islamic companies from the incomplete records available.

So far, the Islamic funds, who pay "dividends" on deposits, rather than interest, under profit and loss agreements with their clients, in line with the religious ban on usury, have indicated they plan to comply with the new regulations which require them to submit themselves to stringent monitoring procedures.

Privately, however, principals of these institutions say they will find it difficult to continue operating under restrictions envisaged by the authorities.

Meanwhile, several hundred thousands depositors have been unable to withdraw their

Continued on Page 6

Bahrain suffers along with rest of Gulf region

Adjusting to post-boom life

A DISPUTE which surfaced last summer between two British-owned and British-run foreign banks over debts outstanding for members of Bahrain's ruling family unfairly highlighted the rather forlorn state into which Bahrain's banking community has now fallen. For one thing, it is not only in Bahrain that Western banks' existing staffs are having to tidy up their banks' troublesome loan portfolios caused by over-zealous and now-departed loan officers.

More to the point is that this dispute, and other similar cases elsewhere in the Gulf, are red herrings to the fundamental problem facing Gulf governments and financial institutions alike – that is how to adjust internally to the end of the boom that goes back almost five years.

It is hardly the fault of the Government in Bahrain that it was not more prescient than the banks themselves in forecasting the extent of the decline of Gulf economies. And it will take something more positive than public grumbling from both the Government and financial institutions to put in place mechanisms which will enable Bahrain and Gulf countries to be self-sustaining financial and industrial communities. Well-defined and enforceable accounting procedures, bankruptcy laws, the establishment of Gulf capital markets, would be just a few of these mechanisms.

Too much has been said by officials and private sector businessmen alike about the need for all of these, but nothing like enough has actually been done. It will be a long time before the mechanisms are in place and the necessary experience in government has evolved. Until then, Bahrain and other Gulf governments – and therefore their respective banking communities – will remain lop-sidedly dependent on oil revenues for their prosperity, or lack of it. This, in turn, means that their future is at the mercy of outside events over which they have no control.

Bahrain's banking community thrived on the back of an astute and welcoming government in the mid 1970s, which was responding to the huge oil revenues and the consequently heavy expenditure by Gulf governments. But now – as Charles Maxwell, senior energy strategist at the New York brokers, C.J.Lawrence Morgan Grenfell, put it earlier this month – it is not OPEC or regional gulf governments which control oil prices: rather, these are dictated by "a slow world economy; competition from gas, coal, nuclear and other energy resources; oil production in non-OPEC countries; and energy conservation as well as OPEC's own disunity." In other words, what the market, not what OPEC dictates.

As a Government, Bahrain depends overwhelmingly on oil and gas revenues and a cash subsidy from Saudi Arabia for its annual revenue. Its neighbours all depend on oil and gas revenues as well.

So Bahrain's banking community has suffered in proportion to the regional slowdown.

Even so, Bahrain still plays host to over 90 offshore banks, both locally and foreign incorporated, and nearly as many representative offices. Most of the former are simply waiting for better days; a few are washing their linen in public, complaining of perceived injustices; very, very few have demonstrated the essential combination of a solid capital base, quality management, and a well-defined sense of purpose.

Arabian Investment Banking Corporation (Investcorp), which recently took a key stake in Gucci, the Italian luxury leather and fashion house, is one of these very few. The investment bank has managed to increase profits every year since it was founded in 1982. The Japanese banks and investment houses – Daiwa, Namura (which returned 30 per cent on shareholders' equity last year), Nikko, Okasam, Sumitomo, Yamaichi – are also among the exceptions, having identified Bahrain as the best place from which to finance Japanese growth from Arab capital exporters and, when the day comes, to finance Japan's participation in Iranian and Iraqi reconstruction programmes.

Too many other banks are still belatedly coming to terms with a lower level of business than was ever conceived in the boom years.

Arab Banking Corporation – one of the island's giant offshore institutions described by its president and chief executive, Mr Abdulla Saudi, as an Arab bank to the world – burnt its fingers in Latin American debt. It then turned to "securitisation", a now discredited buzz-word encompassing such varied activities as equity financing, advisory and brokerage services, fund management, arbitraging, and note issuance facilities.

Last October's crash put paid to that strategy and the bank is reportedly returning to what Mr Saudi has called "traditional relationships and a return to loans". In the meantime, though, it recorded a zero profit last year, and used shareholders' equity to boost provisions. This led to its rating being downgraded last June from "A" to "A-(+)" by Capital Intelligence, the Cyprus-based bank monitoring service. Several other offshore banks – Gulf Riyad Bank, Kuwait Asia Bank, United Gulf Bank among them – last year hyped provisions and/or recorded losses.

The five local banks – Al Ahli Commercial Bank, Bahrain-Saudi Bank, Bank of Bahrain and Kuwait, Grindlays Bahrain Bank, and National Bank of Bahrain – all recorded a decline in return on assets last year. This year is hardly likely to see a substantial improvement.

Robin Allen

IRAN AND IRAQ

Outlook still unclear

WHEN THE guns fell silent along the Gulf warfront last August, it was not just the war-weary people of Iran and Iraq who thought they had cause for celebration.

For bankers throughout the region and elsewhere, too, the ceasefire appeared to hold out the prospect of a new era after eight years of increasingly difficult business conditions in the Gulf's two most powerful countries. Freed from the fighting, so the argument went, Iran and Iraq would be able to concentrate on setting their wrecked economies to rights. Moreover, the inevitable flow of reconstruction contracts and new projects might open up fresh opportunities in both countries for foreign banks.

The reality is proving to be somewhat different. Although businessmen and bankers have flocked to both Tehran and Baghdad since the truce took hold, they and Western export credit agencies are taking caution as their watchword, and with good reason.

For one thing, the political outlook remains deeply uncertain. For another, although both Iran and Iraq have tremendous potential, the immediate economic and financial prospects are scarcely encouraging in either.

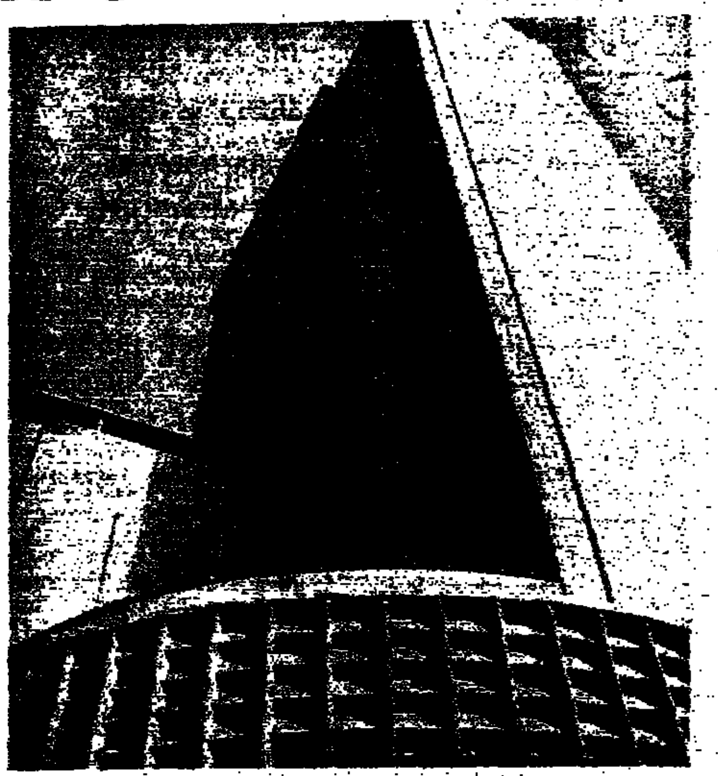
Of the two, Iran is arguably in a stronger position vis-à-vis would-be foreign lenders. In the early years of the Islamic revolution, the regime took pride in paying off the large debts accumulated by the Shah, and for much of the time since then its payments record has been regarded by Western bankers as exemplary.

However, its status as a good potential credit risk has begun to suffer of late; earlier this year payments slipped, Iranian importers were asking for much more extended payment terms, and sizeable short-term trade debts of anything up to $6bn accrued. Although bankers report some subsequent improvement, Iran is continuing to suffer from the acute shortage of foreign exchange which helped to bring its war effort to the point of collapse earlier this year.

To embark on any major new contracts, Iran would thus almost certainly have to resort to foreign borrowing. But on this score, bankers point to a host of significant uncertainties. The Government is by its own admission embroiled in an acrimonious debate about priorities for its reconstruction effort, and the scale of Western involvement therein.

After eight years of war and nearly 10 years of institutional instability, it is debatable whether Iran is ready for such an opening to the outside world. There also appears to be reluctance in some quarters to countenance major foreign borrowing on religious grounds.

Iraq has its own foreign exchange constraints, but is more problematic still thanks to the huge foreign debts it built up during the war years. The Baghdad regime is eager to proceed with a plethora of post-war projects, but to move ahead it needs new credit. Although there are already signs of heavy competitive interest in Iraq among banks, it is not clear that many Western governments will be falling over themselves to guarantee new loans in the required quantity – especially given Iraq's patchy and elusive dealings with its creditors on its existing debts. Some bankers are worried that Baghdad is in serious danger of over-stretching its finances.



The Rafidain Bank in Baghdad, Iraq

Nobody outside Iraq has a precise idea of the size of the country's foreign debt, but it is certainly no less than $65bn. A sizeable chunk of that – $30bn or more – is owed to other Arab governments, which are unlikely to see their money again. But there are also debts to Western countries of at least $14bn, and a good deal more to other developing countries.

Iraq's payment problems began to surface in 1983, when it switched from payment in cash to credit, but the real crunch came with the sharp fall of oil prices in 1986. During that year Baghdad concluded a series of two-year bilateral rescheduling deals with major creditors including France, West Germany and Japan (but excluding Britain, which has long enjoyed favoured creditor status).

The problem is that some of these deals are about to fall due, just at a time when Iraq is aiming to take on major new commitments and when oil prices remain chronically weak. Many bankers expect another series of reschedulings in the next year. Iraq is already indicating to creditors like France (the biggest) and Britain that it is aiming to secure $2 of new credit for every $1 it repays.

Some Western officials even expect eventual pressure on Baghdad to embark on a multilateral rescheduling under the Paris or London Clubs – a prospect which Iraq, given its extreme reluctance to divulge any financial information and its inclination to play creditors off against one another – is bound to resist with all its might.

The picture is complicated by Iraq's plans, currently coming to fruition, to create a new state-owned bank, named Al-Rashid, alongside the existing public sector giant, Rafidain Bank.

All this does not mean that bankers are running away from commitments in either Iraq or Iran at present, but it does suggest that they would do well to apply a more than usual dose of conservatism to their dealings in both.

Andrew Gowers

Islamic investment houses

Continued from Page 5

funds, although "dividends" continue to be paid in some cases.

Precise figures are unavailable as to the number of investment companies likely to be affected by the new regulations. There are four big players - al Rayan, al Sharif, al Saad, al Hoda Misr - who may have 500,000 depositors.

Estimates of deposits range up to $2bn (£1.2bn). The government is handling the issue carefully because of the concern that the collapse of one of these institutions might trigger a run on all (shaking Egypt's financial system to its foundations in the process).

Egyptian and foreign bankers have long accused the Islamic funds of operating "pyramid" schemes: in other words they have been paying dividends from new deposits, rather than from profits generated by legitimate business activities.

The heads of the Islamic funds deny this. They insist they have been making good profits from their traditional activities such as commodity trading and currency speculation. They also say they were in the process of acquiring and developing manufacturing and property interests when the government effectively blocked their activities.

Whatever the truth of the matter there is no question that continuing uncertainty over the future of the Islamic funds has had a generally dampening effect on business activity, and particularly on new investment. Bankers report little new private sector investor interest, except in the booming tourism area.

Adding to pressures on the financial sector is the squeeze on new hard currency credits. Egypt's approximately $3bn private sector debt in foreign exchange, and slim prospects of these debts being repaid soon, has made foreign banks extremely wary about acquiring additional exposure in Egypt.

Looming over Egypt's banking sector is the continuing desultory discussion with the International Monetary Fund. Egypt's unwillingness to comply with fund conditions for a second standby credit - the first agreement, negotiated in May, 1987, collapsed by the end of the year - is holding up further exchange rate reform and possibly a liberalisation of interest rates.

The absence of an IMF agreement is also delaying a second rescheduling of some of Egypt's mountainous $44bn foreign debt. The first rescheduling of about $8bn of government guaranteed debt, covered the period January, 1987 to June, 1988.

Egypt needs a second rescheduling if it is to avoid increasing pressures from creditors in the year ahead. The problem is potentially critical in the case of the US - Egypt's biggest creditor - because under a mandatory congressional requirement military debt must be paid on time (a maximum of 12 months grace is allowed) or all assistance is suspended. Egypt receives about $2.3bn annually in US civil and military aid. Its US military debt is about $4.5bn.

Bankers forecast a further depreciation in the value of the Egyptian pound which has been trading at LE2.30-2.40 to the dollar at the official commercial bank rate if, as seems likely, Egypt's available foreign exchange sources continue to be squeezed. Higher world commodity prices and lower oil revenues are adding to pressures on the Egyptian economy.

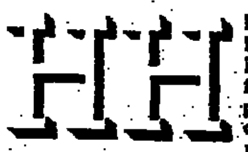
The authorities have eased credit restrictions somewhat in the past several months in an effort to encourage growth in a stagnant economy. The Central Bank has dropped a requirement that banks limit lending to a 2.5 per cent increase over levels prevailing at the end of 1986. Banks are now permitted to lend up to 60 per cent of deposits. Bankers face the problem, however, of finding solid bankable projects in a difficult business environment.

Tony Walker

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 24 1988

INSIDE

An uphill climb for Hillsdown

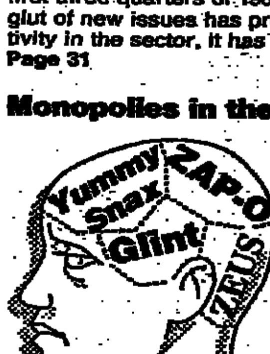


Hillsdown Holdings, the British food manufacturing group, has something of an image problem, reflected in its dull share price performance. Through a quick-fire succession of acquisitions since it came to the stock market in 1985, it has grown into a very large company. Yet its head office in Hampstead, North London, is tiny and City critics have niggling fears that it still has a maverick "small company" mentality. Page 33

Fistful of Canadian dollar bonds

The Canadian dollar sector is among the most unpredictable in the Eurobond market. This has been underlined over the past week, with a rush of new bonds, totalling almost $1bn. It brings to more than $12bn the amount raised so far this year – over double the sum in the first three quarters of 1987. And although the glut of new issues has prompted greater selectivity in the sector, it has not sated demand. Page 31

Monopolies in the mind



One of the world's least recognised monopolies is that on "mental shelf space"; the human mind seems to have room to keep only a few brand names in its front row and recognition – by wholesalers, retailers and customers – is vital to marketing success. Peter Martin argues in the Business Column that the high cost of building brand names means that acquiring mental shelf space is perhaps the most valuable real-estate any company can own. Page 48

DEC networks get personal

Digital Equipment, the second largest US computer manufacturer, is further expanding its lower-end product range by entering the rapidly expanding market for personal computer networks. Page 30

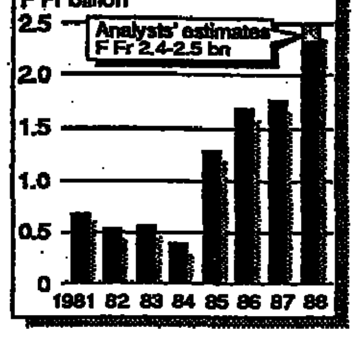
Market Statistics

Principal Companies Covered

Clarity of private thoughts in the public spotlight

Paul Betts and George Graham examine the way in which Paribas is reappraising its development strategy

Paribas net profits (excluding minority interests)
FFr billion



Paribas, the French blue-chip investment bank privatised last year, has bounced back into the spotlight this month as lead banker to the bidder in the five latest takeover attempts on the French stock market, including last week's FFr3.7bn ($600m) offer for Epeda-Bertrand Faure.

So far this year, however, Paribas had been less visible than its arch-rival Suez, embroiled in the epic battle for Société Générale de Belgique, or Lazard Freres on the domestic takeover front.

But the bank, which has been profoundly rethinking its strategies since its privatisation, has had an excellent start to the year: analysts expect that this week it will report sharply higher first half net profits of between FFr1.3bn and FFr1.5bn (excluding minority interests), compared with FFr973m in the same period of last year.

After the hiccup of last October's stock market crash, which depressed Paribas' 1987 earnings by around FFr300m, earnings are expected to be back in line with the bank's long-term profit trend of 20 per cent per annum growth.

Profits for the full year are likely to increase by about 40 per cent from last year's stagnant level of FFr1.7bn to around FFr2.4bn-FFr2.5bn. The bank's net assets are expected to reach FFr30bn by the end of this year, from FFr23bn at the end of 1987.

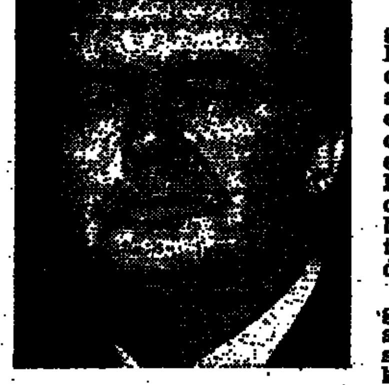
Mr Michel Francois-Poncet, Paribas' chairman, now talks about increasing earnings for the group's 2.5m shareholders with a zeal that was far less apparent at the time of the bank's privatisation at the beginning of last year. "Nothing is sacred any longer," he says, "the only considerations are return on capital and your cost levels."

After a major restructuring of the group's holdings, Mr Francois-Poncet is conducting a reappraisal of the bank's businesses and its longer-term strategies. "Investment banks have built big machines with high fixed overheads in sectors which are only marginally profitable. You now have to reconsider whether to stay in activities which as little as two years ago were considered core businesses," he explained, pointing to government bond trading and corporate lending as two examples.

Besides a selective approach to its activities, Paribas is also picking over its balance sheet. The group already comfortably meets Cooke Committee prudential ratios (aimed at harmonising international banking capital adequacy rules), almost entirely in primary tier capital. In recent years it has doubled its provisions for country risks to around 40 per cent of its exposure, roughly the French industry average. It is also actively managing its debt portfolio with, for instance, a growing number of debt-equity swaps in Latin America.

Paribas no longer has the ambition to be present everywhere. It has already pulled out of Sweden and Panama and has closed its outposts in Miami and Denver. Although the investment bank is comfortable with its subsidiary Compagnie Bancaire, which specialises in consumer finance and home loans, the case is different for Credit du Nord, its loss-making domestic commercial banking subsidiary.

Credit du Nord continued to lose money in the first half, but Mr Francois-Poncet says that the



Michel Francois-Poncet, chairman of Paribas: Only considerations are returns on capital and cost levels

subsidiary is already faring better and should reach break even point this year, after losing nearly FFr600m in the last two years. Once it is restored to health and profitable again, Paribas could decide to reduce further its involvement in the retail banking sector, or it could use Credit du Nord as an instrument to forge a major alliance with another European commercial bank keen to penetrate the French market.

Alliances with both industrial and financial partners are increasingly becoming a cornerstone of Mr Francois-Poncet's longer-term strategy. On the industrial front, Paribas forged close links last week with Mr Raul Gardini's Italian Ferruzzi food and chemicals group by investing about FFr500m both in the Ferruzzi Finanziaria parent company and Beghin-Say, the French sugar producer which Ferruzzi is turning into the main European vehicle for its agribusinesses.

Mr Francois-Poncet acknowledged that Ferruzzi was not a name which always commanded unanimous approval, but he argued that the association with Italy's second largest private group after Fiat could clearly provide Paribas with important new business. "We take our risks," he remarked.

On the financial front, Paribas wants to reactivate its network of international alliances which had been badly jolted by the bank's nationalisation in 1982. "The aim is for our capital to lean on a certain number of groups with which we have close links. It is not a pyramid, it is a much more horizontal system," Mr Francois-Poncet explained.

One key ally is Pargesa, the group created by Mr Gerard Eskenazi, former Paribas vice chairman. Pargesa is closely associated with the Belgian Bruxelles-Lambert financial holding company. "We have naturally every reason to create this sort of link with Pargesa," said Mr Francois-Poncet, emphasising that both groups were keen to maintain and respect their independence.

He scoffed at rumours that Pargesa had built up a 20 per cent stake in Paribas. "What we are seeking are a certain number of key shareholders, people we can work with holding 4,5 or 6 per cent of our capital," he explained. "We could not have this sort of relationship with Warburg with whom we were in permanent competition," Mr Francois-Poncet said

As with other recently privatised French groups, there has been on and off speculation about stake-building in Paribas' stock, although the movements in its shares have been considerably less marked than for Société Générale, the privatised commercial bank. But Mr Francois-Poncet takes all this in his stride. "Our 2.5m small shareholders are one guarantee of independence. But the best guarantee is to keep bringing out rising profits and thereby increase our market capitalisation," he says.

Mr Bush and the domestic new wave

By Anthony Harris in Washington

THE US election campaign is hardly one to inspire confidence; it appears to be a race between two ventriloquist's dummies. Voters apparently believe little that either candidate says, but seem to be settling for Mr Bush. The Democrats are now in a state of some desperation, and playing the populist card – Mr Dukakis is using the strategy of Congressman Gephardt, one of the men he defeated in the primaries. He is therefore widely regarded as a protectionist.

To be brutal, we need not spend too much space on Mr Dukakis; he is forbiddingly far behind, though he is fighting back to some effect. It is enough to point out that nothing in his record looks protectionist; he is simply using public alarm about foreign takeovers as a stick to beat the Reagan claim to have restored US economic strength, which seems perfectly fair reasoning. For the rest of this column, I will speak only of the likely winner.

The polls suggest that the voters want Mr Bush in charge of foreign policy and defence. He has wide experience (though it is not clear how deep it is), and one very good slogan – "Peace through strength works." This is the most credible claim made by either candidate, and it too seems to work. However, the voters also believe that Mr Bush represents the rich. They still regard Democrats in Congress (and in State capitols and city halls) as the best defenders of their household interests.

This may be another unfair judgment, but it will have important practical consequences. The electors clearly want a President who will be bound to compromise with Congress at every step. Is this what Mr Bush wants too, in his heart of hearts? Can he be a secret liberal?

The man is an enigma. He has been so much the obedient servant in his public life – as party chairman, UN Ambassador, and head of the CIA, and above all as Vice-President – that it is far from certain that he has any views of his own. On the stump, he is a chameleon, telling the voters what he thinks they want to hear, but never terribly convincingly.

He fought Texas in 1970 as full-blooded conservative, lost to Lloyd Bentsen, and then confessed candidly that he had overdone the right-wing pose. He started the present campaign on a liberal note – "I want to be the education President" – and then turned hard right to isolate the liberal Mr Dukakis, then far in the lead in the polls. Even now he talks dovishly of ridding the world of poison gas, while standing wrapped in the national flag and proclaiming armed strength.

Reports from his friends are the only half-reliable evidence, and they suggest that the campaign he fought against Ronald Reagan for the Republican nomination in 1980 came nearest to revealing the real George Bush. If that is true, he may find himself reasonably at home with a Democratic Congress so far as objectives are concerned – a smaller deficit, better schools and college opportunities, improved health care, child care and environmental protection.

This harmony will not prevent a blinding headache when it comes to finding means to achieve these ends; it is already assumed that ordinary budget politics, in which the President proposes a package which Congress ignores, will be abandoned almost from the start in favour of a semi-permanent Budget Summit, like the one which cooked the books successfully this year. That will provide cover for some tax increases, and a further lengthening of the Gramm-Rudman timetable for budget balance. These probabilities are already discounted in Wall Street.

The administrative choices are not so obvious, and much more interesting. Mr Bush has said more than once in the Presidential debates that his domestic quarrels with the Democrats are not about ends, but about means. "They want to do it with bigger government, I want to do it with better incentives," as he once explained. That lines him up with the most fashionable trend in US policy theory, the conservative progressives.

These people are firm supporters of free markets as the most efficient tool for getting things done, but they regard the market as something of a moral imbecile, which needs guidance and training. They stress such problems as moral hazard in insurance, and talk as readily of "trade in bads" as old-fashioned liberals do of trade in goods. This is a powerful approach analytically. A whole range of problems, from the failure of lending institutions to welfare dependency or environmental pollution, can be explained as problems of incentive.

It generates prescriptions, too. Some of them are obvious, like the stress which central bankers now put on ensuring that shareholders in dud banks lose their all; Mr Alan Greespan embroidered this last week by arguing that managers should also have a good chunk of their personal capital at risk.

Some are less obvious, like the American fashion for tackling pollution not by forbidding it, but by printing a limited supply of licences to pollute, and auctioning them off. Polluters can then decide whether to pay for their sins, or to pay to stop sinning, according to their circumstances. (The trade in such licences is the "trade in bads".)

This is by now a bipartisan approach. A fat new report called Project 88, on harnessing business incentives to the environment, has just appeared under the sponsorship of Senators Wirth of Colorado and Heinz of Pennsylvania, one from each party. The welfare reform just enacted by Congress, which tries, among other things, to tackle dependency by making welfare recipients work, is also bipartisan. "New" does not necessarily mean "better." It is not clear to me, for example, how new-style "workfare" is superior to old-style public works (which would be denounced by many who favour the new approach as "make-work").

"New" also means untried – and possibly impractical. The Bush incentive approach to child care looks clumsy; and the world is still waiting for a government bold enough to try out in practice the oldest of new-wave theories – educational vouchers to enforce parental choice. Project 88 contains some fascinating ideas, but admits only in a couple of sentences the central weakness of the tradeable-licence approach: it would require much more policing that the old-fashion bureaucratic fiat. It is much easier to make smokestack owners fit gas scrubbers than to leave the decision to them, and monitor their smoke. Mr Bush's deregulation task force also forgot the policing problem.

However, we can leave it to history to decide whether incentivisation is new or old, and whether or not it works. It seems bound to be tried, because it can marry apparent opposites – a Republican President working with a Democratic Congress, a stern Tory Prime Minister with a newly tenderised social conscience, an EEC trying to impose common standards without legislation, and even a Communist leader fighting his own centralised system. It is a language we will have to learn.

Economics Notebook

Clouds in profits crystal ball

WHAT IS the outlook for corporate profits now that Britain is re-established as a high interest rate country and Mr Nigel Lawson, the Chancellor, has predicted two years of slower economic growth?

The short-term answer appears to be anybody's guess.

The 1980s corporate profit boom, which has seen gross trading profits outside the oil sector rise by an average 20 per cent annually since 1982, has consistently outstripped the forecasts of most City analysts and academic economists.

Now that the Government is trying to steer the economy into a period of less rapid growth, the outlook for profits is of key interest to investors and policy makers. But if past experience is any guide, the traditional crop of Autumn forecasts will be subject to major revision in the months ahead.

Last week Professor Douglas McWilliams of Kingston Business School predicted a temporary end in 1989 to the strongly rising trend of British non-oil corporate profits over the past seven years. He said UK companies' gross trading profits will grow by between zero and 5 per cent in 1989 because high interest rates and a strong pound will limit company turnover at a time of rising costs.

But only a few days before, Warburg Securities forecast non-oil company profits should still rise by a respectable 14 per cent next year after anticipated 19 per cent growth in 1988. This is despite Warburg's expectations of a slow down in overall economic growth to 3.3 per cent in 1989 from around 5.2 per cent this year. Warburg's worst case scenario, which would involve even more sluggish growth and British bank base rates rising from the present 12 per cent to 13 or 14 per cent, would still leave profits rising at between 5 and 7 per cent next year.

Part of the problem concerns the tools of the economist's trade. Profits are a "ghastly area of statistics," says Professor Alan Budd, the economic adviser of Barclays Bank.

One difficulty is that all accurate statistics about corporate profits are at least a year or two out of date.

Anyone setting out to draw up a profit forecast for the economy then is faced with two options.

He or she can follow the "top down" approach, which involves taking the anticipated total value of production in, say, the private sector of an economy and deducting the costs to leave profit as a residual figure. The other "bottom up" method is to add together the performance and estimates of future performance of specific companies or corporate sectors.

Both methods are subject to considerable margins of error. The "top down" method, relying on national figures, is bad at capturing the likely profit contribution of foreign subsidiaries of companies.

It also can produce very inaccurate results if, as in the case of Britain's strong economic performance over the past two years, economic growth develops in an unexpected way.

The "bottom up" method may fail to pick up the full implications of major changes in the economic environment.

Company managers, whose opinions form the basis of many "bottom up" forecasts, may stay too optimistic long after a boom has faded or too pessimistic after recession has given way to recovery.

Both the McWilliams and Warburg forecasts incorporated "top down" and "bottom up" features and yet differed considerably in forecasting next year's profit growth. But interestingly, neither forecaster suggested that profits would decline.

Professor David Currie, the director of the London Business School's Centre for Economic Forecasting, believes economists must take into account a major change in the attitude of British businessmen since the beginning of the 1980s when thinking about future profit trends. He says profits may be a residual for some forecasters: but they have become targets for manufacturers.

According to Prof. Currie, some of the companies that the London Business School deals with now say that they will aim for higher profits irrespective of the changes in the external economic environment.

This attitude would have been inconceivable a few years ago and reflects British industry's increased confidence in its ability to manage following years of strong productivity growth, higher profits and the decline if trade union power.

It remains to be seen whether this approach to profits survives the projected slowdown in growth, higher interest rates and the likelihood of sterling staying strong relative to Britain's worse than average inflation performance.

Prof. Currie is convinced that the next couple of years will provide an "acid test" of whether the Thatcher years have worked a "supply side" revolution, leaving British industry leaner and fitter to handle economic setbacks, or whether the end of the consumer boom will merely expose old weaknesses.

Peter Norman

THIS WEEK

THE SIZE of the UK trade deficit will be in the headlines again this week when figures for September are published on Thursday.

After record current account deficits in both July and August, another large figure could rock recent sterling stability and increase speculation about interest rate rises. The consensus of City analysts' forecasts, compiled by MMS International, the financial research company, is for a £1.3bn ($2,25bn) deficit, the same as in August.

A fitness check on UK industry comes in the Confederation of British Industry survey of industrial trends published tomorrow. It will include measures of business optimism, capacity, output, exports, orders and costs.

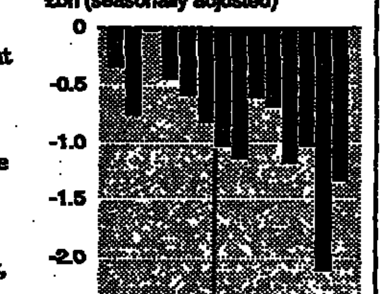
In France details of the September trade balance, due to be announced on Thursday, will be closely watched after August's exceptionally heavy FFr9bn ($1.46bn) deficit.

Economists believe the August figure may have suffered from a bad seasonal adjustment as the sharp upswing in consumption brought an atypical increase in imports. But if the deterioration were confirmed it could damage an already softened French franc. Most forecasts indicate a return to a monthly trade deficit of between FFr2bn and FFr3bn, in line with the first half of the year.

Japanese balance of payments figures for September are released on Friday. Previous figures have already shown a rise in Japan's trade surplus but analysts will be looking to see if capital outflows are slowing in anticipation of a fall in the dollar.

Also in Japan, department store sales figures on Wednesday should confirm the continuing strong trend of consumer spending.

UK Current Account
£bn (seasonally adjusted)



West Germany's five top economic institutes deliver their autumn economic forecasts for 1988-89 on Monday. Growth forecasts are expected to be upgraded to 3.5 per cent for this year and to between 2 per cent and 2.5 per cent in 1989.

US gross national product figures for the three months to September are released on Wednesday. The consensus is for an annual growth rate of 3.2 per cent. With the US authorities concerned about the pace of growth, a bigger rise could increase speculation about a tightening of monetary policy.

Other events and statistics (with MMS International consensus in brackets) include:

Today: Federal budget for September ($12bn surplus).

Tomorrow: UK. Mr Nigel Lawson, the chancellor, opens debate in House of Commons on the state of the economy. US 10-day car sales.

Wednesday: West German Bundesbank securities repurchase (repos) agreements due. UK construction, new orders in August. US two-year Treasury note auction.

Thursday: UK Treasury question time in House of Commons. New vehicle registrations in September, house purchase finance statistics in three months to September.

Maclean Hunter offers C$540m for media group

By David Owen in Vancouver

MACLEAN HUNTER, the Canadian publishing and communications group, is seeking to buy Selkirk Communications, a broadcasting and cable concern, for C$45 a share, or some C$540m (US$449.4m).

The Toronto-based company has been in search of a large media acquisition for the past two years. The move was started by confirmation from Southam, another Toronto publisher, that it was interested in selling its Selkirk stock.

Southam currently holds 47 per cent of Selkirk's roughly 12m Class A non-voting shares, as well as 400 of the 2,000 Class B shares through which the company is controlled. It has agreed to tender these holdings to Maclean Hunter, which is offering C$5 a share for the Class B stock.

The prospective deal is likely to be scrutinised closely by the Canadian Radio-Television & Telecommunications Commission, a government regulatory body, which is concerned about concentration in broadcasting ownership.

Mr Ronald Osborne, Maclean Hunter president, indicated that the company would like to retain as much of Selkirk as possible. "We are not doing this to get our hands on one or two particular operations . . . and dispose of the rest."

Grand jury probe into ICN

By James Buchan in New York

ICN Pharmaceuticals, the maverick California drug company which has been battling to convince US authorities that its "wonder" drug ribavirin can treat Aids, could face criminal prosecution if a current grand jury inquiry decides it may have tried to market the drug illegally.

ICN, with headquarters in Costa Mesa, California, confirmed on Friday that it and its subsidiaries were under grand jury investigation. Mr Jack Sholl, an official of ICN, said the company had co-operated fully with the investigation since the grand jury issued a subpoena on September 7.

Mr Sholl said: "It appears to us that there's nothing more here than some old accusations that have been publicly reported on in the media."

ICN, which is under investigation by the Food and Drug Administration and the Securities & Exchange Commission, was last year accused before a congressional committee of trying to sell Ribavirin to combat the virus which causes the catastrophic illness, Acquired Immune Deficiency Syndrome. Ribavirin is currently licensed in the US only to treat a rare disorder in infants.

● Genentech, the West Coast biotechnology group whose stock price has collapsed this year, had stagnant earnings in the third quarter because of a disappointing showing by its heart drug TPA.

The group said its earnings were just $5.30m or 6 cents a share in the September quarter, little changed from the $5.24m or 6 cents a share of the 1987 third quarter.

The company, whose stock has slid from over $47 at its peak this year to $16¾ on Friday, has fallen prey to Wall Street's excessive expectations about TPA. In September Genentech warned that the drug, which dissolves blood clots, was running into problems because doctors had become uncertain whether it was more effective than Streptokinase, an older and cheaper competitor made by Hoechst of West Germany.

Even so, TPA has been a big sales success since its approval last November. Sales in the third quarter were almost twice as high, at $81.6m, than the pre-TPA third quarter last year. Product sales more than doubled from $23.8m to $57.5m.

In the first nine months of this year, revenues increased from $134.1m to $245.3m. Product sales soared from $80.3m to $196.1m to give TPA probably the most successful drug launch ever.

Digital to expand into PC networks

By Della Bradshaw

DIGITAL EQUIPMENT, the second largest US computer company, is further extending its lower-end product range by entering the rapidly expanding market for personal computer (PC) networks.

Mr Kenneth Olsen, chairman and founder of Digital, is due to announce in the US today that the company plans to sell networks to organisations unfamiliar with its equipment, using a range of PCs from other manufacturers.

Earlier this month Digital announced its intention to re-enter the personal computer market after a four-year absence, through an agreement with Tandy, a leading US producer of personal computers. Tandy will manufacture a PC which will be sold under the Digital name. In January Digital confirmed that it was working with Apple to develop jointly products that link Apple PCs and Digital mini-computers.

In entering the PC networking market Digital is pitching itself against specialist suppliers, such as 3Com and Novell, as well as against IBM. The company has also moved closer to IBM by developing its network to connect the most powerful IBM PCs, the top end of the PS/2 range. Support for IBM's latest OS/2 operating system — the software which controls the computers' internal operations — will be available in 1989.

This year 3.6m PCs will be connected to networks, and that number will double in 1989, according to the market research organisation Dataquest. By 1992 some 21.3m PCs will be networked, and the network market will be faster growing than the PC market itself, and is forecast to be worth more than $5bn a year.

Mr Paul Evans, network market manager for Digital in the UK, estimates that stand-alone PCs are only used, on average, 4 per cent of the available time. In the UK alone, he argues, about £8bn has been spent on PCs which are only partially used.

The Digital PC network product will be based on standard Ethernet hardware.

Financial Trust purchase saved

THE C$200m (US$166.5m) purchase of the Toronto-based Financial Trust by Canada's fast-growing Central Capital, which had looked in danger because of unorthodox property and construction loans on the books, has been salvaged with the help of C$54m in government loans and guarantees, writes David Owen.

Under the revised deal, Central Capital will acquire the trust company minus the contentious assets, which will be bought back by the Financial Trustco holding company.

Volvo in US engine deal

VOLVO of Sweden has reached a marine engine deal with Minstar, the US recreational boat manufacturer controlled by Mr Irwin Jacobs, in an attempt to take an increasing share of the expanding North American market, writes Robert Vincent in New York.

The deal involves Volvo North America, the group's US offshoot, buying for $100m in cash a 10-year Minstar note which may be converted into a 20 per cent stake in IJ Holdings, Minstar's parent.

Volvo will supply up to 20 per cent of the engine requirements for Minstar's boat building offshoot, Genmar Industries, which is ranked as the world's largest independent builder of recreational craft.

The engines will be supplied through Volvo Penta of America, the marine division of Volvo North America, whose share of the US market is at the moment relatively small.

The deal will last until June 1991, but Volvo said it intended to convert the supply agreement into a long-term arrangement.

Royal Bank backs Elders funding

By James Buxton, Scottish Correspondent, in Edinburgh

ROYAL BANK of Scotland, the largest Scottish bank, intends to participate in a £1bn ($1.76bn) loan facility being assembled to finance the hostile bid by Elders IXL of Australia for Scottish & Newcastle Breweries, Scotland's largest industrial company.

The move was seen in some Scottish political quarters last night as a stab in the back for S&N. But Royal Bank said it was purely a commercial decision which did not imply that it backed the Elders bid.

Royal Bank serves both S&N and Elders, the latter through its international division, but is not the principal banker to either. The decision to participate in the loan consortium being led by Citicorp was an executive one, since the size of Royal Bank's contribution does not require approval by the bank's board.

Nevertheless the board of the bank could decide to overthrow the decision when it meets later this week. Two members of the board of Royal Bank of Scotland Group, the bank's parent, have past connections with S&N. Mr Peter Balfour, vice-chairman, was previously chairman of S&N, while the Earl of Airlie was once a director of the brewery.

Leading personalities, politicians and representative organisations in Scotland have almost unanimously declared that they want the Elders bid for S&N referred to the UK Monopolies and Mergers Commission (MMC). But most Scottish financial institutions have made clear that their decisions on the bid are likely to be dictated by the interests of their shareholders and policyholders.

Yesterday Mr Gordon Wilson, leader of the Scottish National Party, said that he regarded the Royal Bank's action as "financial cannibalism." The bank was "enabling the takeover of one of the few remaining autonomous sectors of Scottish industry for short-term profit," he said.

But Professor Jack Shaw, director of Scottish Financial Enterprise, which represents the Scottish financial community and which has called for the bid to be referred to the MMC, said: "Scottish financial institutions have some special responsibility to encourage businesses on their doorstep, but not to the extent of cutting themselves off from international business. An international financial community cannot be expected to act as a custodian of regional policy."

Mr Philip Bennant of Kleinwort Grieveson, S&N's merchant banker, said he thought Royal Bank's action was "somewhat strange" in view of the individuals involved. But the decision, he said, did not denote support for the bid itself. "The money to back the Elders bid has always been there. Who actually puts it up is quite immaterial."

Yesterday Mr Alick Rankin, chief executive of S&N, sent a letter to all members of the group's staff in which he told them that "a large number of jobs in all areas of the company would be at risk" if Elders' bid was successful.

Elders would sell off, or rationalise much of the company's activities leaving "a business concentrated only on the production and selling of beer, and particularly of Fosters Lager, which we already know is not a popular brand in the north of Britain."

Fixed-rate bond for Household Mortgage

By Stephen Fidler, Euromarkets Correspondent

HOUSEHOLD MORTGAGE Corporation, the specialist British mortgage lender, today expects to launch the first fixed-rate Eurobond to be backed by UK residential mortgages.

Previous issues of UK mortgage-backed securities, of which some £4bn ($7bn) are outstanding, have all carried floating interest rates at varying margins over London interbank offered rate (Libor).

Today's expected issue of £100m of five-year bonds will be swapped entirely into floating-rate sterling, enabling HMC to achieve a cost of funds of perhaps ⅛ point over Libor. This compares with a margin of more than double that — 27½ basis points — on an issue of floating-rate mortgage securities launched last week for the Mortgage Corporation, another specialist lender.

The HMC issue, which will carry a prime AAA rating from Standard & Poor's, will be lead managed by J.P. Morgan Securities. There are expected to be three co-lead managers, including two British houses.

Unlike the US, where the mortgage-backed securities market exceeds $700bn, almost all UK mortgages are at floating interest rates. The problem in issuing mortgage securities solely at floating interest rates has been that it has excluded the many potential investors that only buy fixed-rate bonds.

Although techniques to switch fixed-rate into floating-rate funds are well established, the complication in mortgage funding is the uncertain rate of prepayment of the mortgages.

This problem is being addressed in today's issue by allowing the full substitution with new mortgages for prepaid mortgages during the entire five-year life of the bond. Underlying the fixed-rate bond is a conventional mortgage-backed floating-rate note which allows full substitution for five years.

At the end of the five years when the entire proceeds of the fixed-rate bond will be repaid and the swap is unwound, the underlying floating-rate note issue will be "put" to AIG, the US insurance group. Bids will be sought today for the five-year swap.

A new source of fixed-rate sterling securities carrying prime credit ratings and a substantial yield pick-up over UK government securities is likely to be received well by investors at a time when the Government is reducing the amount of outstanding gilts. Cost savings for the mortgage lenders would be considerable if they could find a way to lengthen the bonds' maturity to the periods where the gilts shortage is particularly acute.

The limitation against longer maturities would appear to be not the establishment of swaps over 10 years or more, but rather the limited number of counterparties willing to take on the AIG role in today's deal.

Södra Skogsägarna profits jump 49%

SODRA SKOGSAGARNA, the Swedish pulp, paper and timber company, has reported a 49 per cent increase to SKr589m ($93.3m) in profits after financial items in the eight months to August, writes Maggie Urry.

Sales were 12.5 per cent up at SKr4bn. Mr Rune Brandinger, managing director, said the increase in sales was mainly due to rising selling prices for pulp. He said a good international market meant there was high demand for the group's products.

Mr Brandinger noted this was a peak period for the business and profits for the year should reach at least SKr800m.

"Only two years ago our interim profit was near zero," he said.

● MacMillan Bloedel, the Canadian forest products company, has reported a 15 per cent drop in third-quarter earnings — despite the still favourable market environment for pulp and paper, writes David Owen in Vancouver.

Net income totalled C$70.5m (US$58.5m) or 66 cents a share, compared with C$82.7m (77 cents a share) a year earlier. Revenues were C$834.4m against C$817.1m. The Vancouver-based company blamed factors including a five-week maintenance and modernisation shutdown at one of its pulp mills.

For the nine months to September profits rose nearly 18 per cent to C$236.8m (C$2.40 a share) from C$200.7m (C$1.99 a share) year earlier. Revenues were C$2.6bn against C$2.3bn.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Banks retain key takeovers role

THE SCALE of the two deals proposed last week by US tobacco companies – the $11bn takeover bid for Kraft by Philip Morris and the $17bn management buy-out of RJR Nabisco – suggests international banks will continue to play a very active role in corporate restructurings on both sides of the Atlantic.

Banks are hungry for assets which will be drawn – the Basle accords on bank capital have made finely-priced standby financings much less attractive to them. And, because of the risk, the margins are usually higher than on run-of-the-mill corporate loans.

Whether the margins sufficiently compensate for the risk is another matter. There are more than a few bankers who ponder aloud on whether, in view of the size of the transactions, this will end in tears in the 1990s.

For now, though, the attraction of these deals appears irresistible. Whether those loans are raised in the international markets or ostensibly in the US, such as that completed last week by Philip Morris, non-US banks play a very large role.

"Even when these financings are syndicated in the US, the participation of foreign banks is far more significant to us than the US regionals," said one senior official at a large US bank last week.

For its deal, Philip Morris has put together $12bn unsecured financing with 64 banks. According to its filing with the Securities & Exchange Commission, a $6bn credit facility was already in place with a group of 45 banks, about two-thirds of which were foreign. This was increased and a further credit established to bring the total available to $12bn.

Both credits will be available until March 1993. A number of interest rate formulae are payable, including the prime rate of Citicorp, the agent on the financing, and ¼ point over London interbank offered rates. There is a commitment fee of 10 basis points on the unused portion of the credit.

In the UK, Elders IXL, making a £1.6bn for Scottish and Newcastle Breweries, is raising £1bn from banks, and has four underwriters in place.

Whitbread, the brewery group, is raising £250m through a five-year revolving credit, but is not saying on what terms. Guinness, another UK drinks group, raised a credit from £700m to £1bn, £500m of which will be committed.

Elsewhere, Framatome, the privately-owned French nuclear power stations specialist, is seeking $250m to help it to diversify. The credit, being arranged by J.P. Morgan, Banque de l'Union Européenne and Barclays, carries a five-year maturity, extendible to seven, and a facility fee of 10 basis points. If less than half drawn, it pays 10 basis points over Libor or 12½ over its Paris equivalent if in French francs. If more than half used, the margin rises to 15 and 17½ basis points.

Trelleborg, the Swedish industrial group, mandated Bank of America International to arrange a $150m revolving credit. It carries a facility fee of 6¼ basis points, a margin of 7½, and utilisation fees, split into thirds, of zero, 5 and 7½ basis points.

Agusta, the Italian helicopter manufacturer 98 per cent owned by the state-owned holding company, Efim, is raising $108m over seven years; with a three-year grace period, through Citicorp. A margin is payable of 20 basis points. If less than half used, the commitment fee on the unutilised portion is 10 basis points. If more than half drawn, it is 8½ basis points.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	4,976.4	0.3	589.7	30,143.8
Prev	1,698.9	0.4	0.0	8,567.3
Other	2,201.0	0.0	1,273.4	1,635.4
Prev	526.8	14.9	0.4	3,632.9
Secondary Market				
US$	15,661.4	1,155.2	5,906.1	5,906.5
Prev	14,256.7	1,054.9	7,710.5	5,986.8
Other	17,544.7	1,257.5	4,910.1	29,478.3
Prev	13,819.2	1,173.8	6,086.6	24,232.0

	Cedel	Euroclear	Total
US$	10,934.8	33,404.6	44,339.4
Prev	10,266.1	29,009.4	39,275.5
Other	25,454.0	32,846.4	58,300.4
Prev	22,487.5	26,919.1	49,406.6

Week to October 20, 1988 Source: AIBD

INTERNATIONAL BONDS

Glut fails to sate demand for Canadian dollar issues

A WEEKLY total approaching $1bn of new Eurobonds would not normally raise any eyebrows, but the fact that this was the amount raised last week in the Canadian and not the US dollar sector excited some interest.

Despite the phenomenally high volume of new paper in the sector, investor appetite for the currency appears to be undiminished, proving the point made recently by several syndicate managers that the sector remains among the most unpredictable in the Eurobond market.

This seems set to be the year of the Canadian dollar as far the Eurobond market is concerned. The total raised so far this year has exceeded $12bn, more than double the amount issued in the first three quarters of 1987. Despite these figures, a weekly total of C$910m remains rather unusual, and irresistible swap opportunities were behind many of last week's issues, with Canadian banks identified as aggressive payers of fixed rate Canadian dollar paper.

Yet although the glut of new issues prompted increased selectivity in the sector, it failed to sate demand fully and many of last week's deals were still performing well even though placement was expected to slow slightly. In contrast, many other non-dollar sectors would have ground to a complete halt faced with such a welter of issues. This was partially the case with the Ecu market which also saw a rush of new paper last week.

The basket currency is certainly attracting a far wider group of investors now, with many houses noting a sharp upturn in interest since the Bank of England decided to issue Ecu-denominated Treasury bills. However, the Ecu750m in new deals which hit the market last week is expected to take some time to digest. Despite congestion in the sector, Friday's Ecu100m six-year deal for Finnish Export Credit via Société Générale and Shearson Lehman saw the level of demand expected for such a top rank credit and was well bid within fees.

Back in Canadian dollars, senior syndicate managers said demand appeared to be concentrated at the longer end of the market, a factor put to good use by both Eurofima and the Province of Quebec. The success of the World Bank deal via IBJ International, carrying a five-year maturity, did not negate this hypothesis as the borrower itself is perhaps the only Eurobond market issuer which can launch an issue with barely any regard to the nuances of prevailing market conditions.

IBJI was universally commended for its successful execution of such an important mandate and, although the deal came at a fairly fine margin of around 24 basis points over comparable Canadian government bonds, demand was exceptional and this spread soon narrowed. The World Bank also successfully reopened the dormant Euroyen sector with a Y50bn issue via Yamaichi International, another deal which was still trading very well within fees at the end of the week.

The World Bank is an exceptional borrower, however, and one clear consequence of the increased issuance in Canadian dollars is the development of separate tiers in the sector, with the World Bank and similarly rated names in one and a handful of frequent corporate borrowers in another. While some companies and certain financial institutions with the appropriate investor profile are assured of success among the retail clients in the Benelux countries, Switzerland and the rest of Europe, others tend to founder unless this distinction in perception is fairly reflected in the pricing of their deals.

The Canadian borrowers who tap the sector tend to fall into a group on their own, and much of their paper seems to find its way back into the hands of domestic investors eventually. The performance of such deals is thus guaranteed, as was the case, for example, with the City of Winnipeg issue which had a traditional Canadian group. Perceptions of these borrowers do vary, however, and many dealers felt that this was not taken into account on the pricing of last week's 10-year issue for the Province of New Brunswick.

While institutional interest in the Canadian dollar is certainly on the upturn, with many more Japanese accounts detected in the market of late, the currency is never going to be one to which fund managers dedicate 25 per cent of their portfolios. Nevertheless, the outlook for the currency, currently testing historical highs against its US counterpart, is still bullish, provided that the opinion polls ahead of the November 21 general election continue to show good support for the Conservative Party of Mr Brian Mulroney, the Prime Minister.

The election is expected to decide the fate of Mr Mulroney's US-Canada free trade agreement which would eliminate most of the remaining tariffs on bilateral trade. Although the agreement has prompted some controversy, confidence is expected to soar if the Conservatives, still well ahead in the polls, secure the majority they need to push the pact through parliament.

The Canadian dollar sector certainly appears more attractive at the moment than the US dollar straight market, where the recent rebound in oil prices and the bearish tone to the dollar have subdued activity of late. Although the spreads on some recent top quality issues – including the $1bn for Italy, the seven-year deal for Alberta and that for Japan Development Bank – have narrowed lately, recent developments on the US corporate scene are now prompting renewed caution about credits.

The recent bid for Kraft by Philip Morris and the proposed management buy-out of RJR Nabisco have sent tremors through the corporate sector of the Eurodollar bond market. Tobacco companies in particular have suffered a loss of liquidity since US consumers started to bring legal cases against the companies.

"During the next few weeks, I would be extremely cautious about both bringing and buying any US dollar-denominated deal from a tertiary or even a secondary corporate credit," noted one senior syndicate manager.

Dominique Jackson

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Tokyo Electron Ltd¢	150	1992	4	(5)	100	Nomura Int.	*
SMK Corp.¢	80	1992	4	(5⅜)	100	Wako Int.Europe Ltd	*
Japan Storage Battery¢	50	1993	5	(5⅜)	(100)	Nikko Secs.(Eur)	*
Flash Ltd‡◆	37	1992	4	(k)	100.10	Sanwa Int. Ltd	-
CANADIAN DOLLARS							
Cred'anstalt-Bkverein(b)◆	50	1993	5	10¼	101⅝	Creditanstalt	9.823
Quebec◆	35	1993	6	10½	101½	BIL	10.103
Eurofima◆	100	1996	8	10⅜	101⅞	Bq Paribas Cap.Mkts	10.023
Ford Motor Credit Canada◆	100	1993	5	10¼	101.80	Deutsche Bk Cap.Mkts	9.778
New Brunswick◆	100	1998	10	10½	101⅜	UBS	10.274
Genfinance◆	100	1993	5	10⅜	101⅞	UBS	9.882
City of Winnipeg◆	75	1993	5	10¼	101¼	Wood Gundy	9.921
Swedish Export Credit◆	100	1990	2	10¼	101.30	Bankers Trust Int.	9.508
World Bank◆	150	1993	5	10⅛	101⅞	IBJ Int.	9.635
Fiat Finance & Trade◆	100	1993	5	10¼	101.55	Salomon Brothers	9.843
AUSTRALIAN DOLLARS							
ANZ Banking Group◆	50	1991	3	14¼	101¾	ANZ Merchant Bk.	13.503
BNP◆	60	1991	3	14	101⅞	BZW	13.203
Bank of Nova Scotia◆	75	1990	2	14⅜	101½	Salomon Brothers	13.470
Australian Telecomm.(j)◆	150	1992	4	12½	98⅝	Samuel Montagu	12.962
NEW ZEALAND DOLLARS							
BP America Inc.◆	60	1990	2	14¼	101¾	Hambros Bk.	13.198
D-MARKS							
Hokuriku Elec.Ind.¢◆	100	1993	5	2¼	100	Nomura Europe	2.250
Dynic Corp.¢◆	60	1993	5	2¼	100	Deutsche Bank	2.250
Ind. Bank of Japan◆	100	1998	10	6¼	101⅜	IBJ Germany	6.012
Bank of China‡◆	200	1993	5	(g)	100	Commerzbank A.G.	-
LKB Finance N.V.‡◆	500	1995	7	(i)	100	Trinkhaus&Burkhardt	-
STERLING							
TMC number 11‡◆	500	2020	32	(c)	100	Salomon Brothers	-
EIB◆	100	1997	9	10	100¼	Kleinwort Benson	9.957
Portugal(f)◆	100	2016	28	9	89.783	S.G.Warburg Secs.	10.107
SWISS FRANCS							
Bond Int.Gold Cay.Is(a)	100	1995	-	(4)	(100)	TDB Amex Bank	*
MODO◆	200	1999	-	5	101¼	Credit Suisse	4.851
Electricite De France◆	100	2003	-	4¾	100½	UBS	4.703
City of Yokohama◆	100	1998	-	4½	100	SBC	4.500
ECUs							
World Bank◆	100	1993	5	7½	101⅝	LTCB	7.103
Sweden◆	250	1993	5	7½	101¾	Bq. Paribas Cap.Mkts	7.072
Ford Motor Credit Corp.◆	100	1991	3	7½	101⅜	Morgan Stanley Int.	6.976
Cred.FoncierDeFrance(d)◆	60	1994	6	7⅝	101⅜	Credit Com.De France	7.334
FEK◆	100	1994	6	7⅝	101¼	Societe Generale	7.360
San Paolo Di Torino◆	100	1991	3	7⅝	101⅜	DBCM	7.100
SEK◆	40	1991	3	7½	100⅝	Bq Paribas Cap.Mkts	7.261
YEN							
Komatsu Overseas Fin(e)◆	15bn	1993	5	6.8	102	Bankers Trust Int	6.321
Bergen Bank(h)◆	12½bn	1992	4	7⅛	101⅝	Nippon Credit Int.	6.649
World Bank◆	50bn	1993	5	4⅞	101¼	Yamaichi Int.	4.590
LIRE							
Pirelli Fin. Services NV◆	100bn	1992	4	12	101.65	Bankers Trust Int.	11.463
GUILDERS							
WUH◆	100	1992	4	5¾	101⅛	Algemene Bk Ned.	5.430

*Not yet priced. **Private Placement. ¢With equity warrants. ‡Floating rate note. ◆Final terms. a) Convertible into gold cash equivalent of gold price. b) Additional 25m on tap. c) Spread of 27 basis points over 3 month LIBOR. £200m settles December 20, fixed over 3 month LIBOR; £100m settles June 31, fixed over 2 month LIBOR; £100m settles February 28, fixed over 1 month LIBOR; £100m settles March 31, on March 31 all reset off 3 month LIBOR. Average life is 7½ years. d) Fungible with Credit Foncier's outstanding ECU bond due April 14 1994. e) Coupon payable in Australian dollars. f) Fungible from October 26 with an existing £50m issue of loan stock, and placed on a yield basis. g) Coupon at ⅛ over 3 month Deutsche Mark-London interbank offered rate. h) Redemption linked to Nikkei average. i) Exchangeable for fixed bond. Coupon at 6 month LIBOR. j) Exchangeable into domestic bond with same coupon and maturity. k) Coupon at 21 basis points over 6 month LIBOR. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

RJR bondholders out in the cold

IN THE old days, when one of the world's greatest corporations went from being a good risk to being a bad risk within a morning, you knew about it because financial markets became upset.

Not nowadays. Outside a horribly mangled corner of the market for high-grade US corporate bonds, Wall Street was a picture of calm last Thursday when RJR Nabisco suffered a catastrophic loss of creditworthiness.

Admittedly, RJR did not default on a debenture payment, let alone file for bankruptcy. In fact, it reported last week that its profits increased handsomely in the third quarter. The company's credit was demolished not by outside events but by the will and command of its management.

RJR is the latest proof of what might be termed, without offence to the father of the junk bond market, as Milken's Law: Bad credits drive out good.

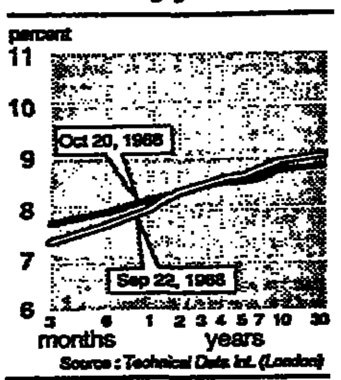
RJR is a company which last year made $1.1bn in profits from selling $15.8bn worth of cigarettes and food of various sorts. It has twice as much equity as long-term debt and a billion dollars in ready cash. Up to last Thursday morning, its more than $4bn in long-term bonds were rated solid A, as some of the safest investments in corporate America.

On Thursday Mr Ross Johnson, chief executive of RJR, said that he and other managers and investors wanted to buy the company from its public stockholders. They plan to borrow however much they need, which will not be less than $17bn, and then pay off the debt from tobacco profits and the sale of RJR's valuable food brands.

Everybody agrees that RJR is a great candidate for private ownership, because tobacco companies have become disreputable and are undervalued by the stock market.

Even if Mr Johnson has to pay $20bn to the public stockholders, people say he should still make a lot of money. This is no comfort for RJR's bondholders. Their call on RJR's cash flow will be crowded out by the lenders to the buy-out. *All the financial ratios that have made RJR a good credit up to now – how easily profits* cover interest and fixed charges, its excess of assets over liabilities – will deteriorate.

US Treasury yields



Source: Technical Data Int. (London)

Here is what happened to RJR's bonds on Thursday. According to reports from the market, an issue of 8⅜ per cent debentures that comes due in 2017 fell from 87 to 72½ for a loss of almost 17 per cent. The yield on these bonds rose to 12 per cent, as well befits a security which will probably be rated with a weak B like a junk bond.

Such a disaster has been a hazard for corporate bondholders for so long it has a name: event risk.

In the old days, the most severe "event risk" was default and insolvency. Since the early 1980s, the risk has come from the takeover of well capitalised companies by shakily capitalised raiders, shell companies or ambitious managements who want to realise the value of their companies through leveraged buy-outs.

Until Thursday, RJR was thought safe from event risk. Says Mr Joseph Taylor, a corporate bond specialist at Smith Barney: "RJR was considered to be one of the most dramatically capitalised companies. People thought it wasn't susceptible to takeover. People thought it would cost too much."

But this was to underestimate not only the financial muscle of the junk bond market but the ruthlessness of managers such as Mr Johnson. Mr Jim Grant, who is a leading critic of leveraged buy-outs, said last week: "I am incredulous at what seems to be the loss of goodwill and civility. One class of security holder is being stolen from by another, virtually."

Bondholders have little protection from event risk. Their main defence lies in the covenants or indentures attached to each bond issue, which might, for example, require the issuer to maintain a certain *debt/equity* ratio.

Last week, furious bondholders were saying that lawyers would have to write a new type of "poison put" indenture, which would allow bondholders to redeem at par in the event of the takeover. Current poison puts, as Mr Taylor *points out, "are somewhat* worthless to bondholders because indentures often exclude a board-of-director-approved change of control."

Mr Morey McDaniel, a lawyer who has written at length about bondholder rights, doubts this sort of tinkering will work.

"Indentures put the burden on bondholders to imagine every conceivable way management can take advantage of them," he says.

He believes that bondholders, no less than stockholders, should be the fiduciary responsibility of boards of directors.

In practice, the only safety is in flight. Last week, bondholders were running out of US investment grade industrial bonds into utilities, sovereigns, Canadians, even junk – anything that is not likely to be LBO-ed. This caused a small rise in the relative yields of investment grade bonds.

Mr Michael Milken, the junk bond banker who popularised *the leveraged takeover and* buy-out, used to warn people against investment-grade bonds. They have nowhere to go but down, he used to say. The RJR Nabisco proposal shows his prophecy is self-fulfilling. Investment-grade bonds are a dying species. Junk bonds, the grey squirrels of the fixed-income markets, are killing them off.

James Buchan

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.25	8.06	8.17	8.27	6.27
Three-month Treasury bills	7.44	7.32	7.43	7.53	5.14
Six-month Treasury bills	7.59	7.40	7.79	8.04	5.74
Three-month prime CDs	8.46	8.33	8.17	8.51	6.77
30-day Commercial Paper	8.10	8.06	8.02	8.29	6.57
90-day Commercial Paper	8.10	8.06	8.24	8.40	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	n/a	n/a	8.70	8.52	8.55
20-year Treasury	104⅛	n/a	8.89	8.69	9.06
30-year Treasury	102⅜	n/a	8.91	8.70	9.07

Source: Salomon Bros (estimates).

Money supply: In the week ended October 10 M1 rose $2.2bn to $784.5bn

NRI TOKYO BOND INDEX

December 1983 = 100	20/10/88	Average yield (%)†	Last week	12 wks ago	26 wks ago
Overall	146.06	4.65	145.88	143.74	144.51
Government Bonds	147.17	4.30	147.38	144.80	145.34
Municipal Bonds	147.40	3.53	147.03	145.76	145.55
Govt.-guaranteed Bonds	148.61	3.55	148.22	147.25	147.29
Bank Debentures	139.45	4.62	139.30	137.72	137.94
Corporate Bonds	145.71	5.48	145.44	144.25	143.25
Yen-denom. Foreign Bonds	149.61	6.27	148.82	146.30	143.71
Government 10-year	4.97	–	5.09	5.14	4.77

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

The Old Lady goes for a hat-trick

MR NIGEL LAWSON, the Chancellor of the Exchequer, confirmed in his Mansion House speech on Thursday that the Bank of England would continue to pursue the policy of fully funding the public sector contribution to money supply – that is to neutralise, through purchases of gilts, the contractionary effects of the Budget surplus.

Although the market was less than impressed with what it regarded as a pretty thin effort on other broader economic issues ("succinct" is how the Treasury is presenting it), *it did not make the mistake* the foreign exchange market did in thinking there had been a change in policy towards the exchange rate.

The Treasury will still set policy in a way that will not allow the pound to depreciate to assist either excessive pay settlements or with an eye on the balance of payments. On the latter the view remains that the UK has an import problem, currently driven by too strong a level of domestic demand, and that this will be put right by interest rates.

The Chancellor's restatement of funding policy has, however, important implications for the gilts market.

The Bank intends to achieve a full fund; it has done so over the past two financial years and a hat-trick is being aimed for. As a pragmatic let-out, Mr Lawson's comment that a full fund may not be completed within the course of a financial year is there to take account of unforeseen circumstances.

If such circumstances – a large change in intervention, National Savings, the public sector borrowing requirement (PSBR), or the behaviour of the banks and building societies – occurred within the last months of the financial year, the mechanical pursuit of the funding objective could lead to an unnecessary shock to the market. As the market should know by now, the Bank is shock-averse.

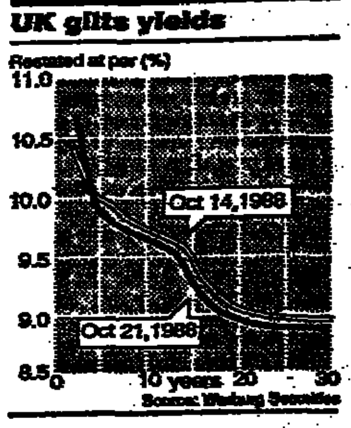
Friday's £200m index-linked taplet demonstrates this: the commitment to full funding does not mean the end of releases of stock for the purpose of market management. An almost two-point rise on Friday in those stocks with maturities greater than 2000 was *the trigger for the* issue.

The implication of this is that the Bank stands prepared to deal on either side of a transaction when the market is moving strongly in either direction. If such a move raises the notional level of gilts it may eventually have to buy in, *it is confident it can do so.*

The Bank has altered its relationship with the market since it became apparent that the Government's need to fund the public sector contribution to monetary growth had changed.

The Bank's position has recently been described as one which has moved 180 degrees from that of a forced seller of gilts to a forced buyer of gilts. It resists this interpretation and, to continue the allusion, describes its orientation as 90 degrees from its former position to a more neutral one.

UK gilts yields



Source: Warburg Securities

The Bank makes plain that when it operates it will do so in the direction in which the market is moving; it does not have a chartists' view about where gilt yields as such should be. With switches it is prepared to accommodate them, mostly on a one-for-one basis, compared with when it let more stock out than it took in.

It does not see its new role as a buyer of stock leading to any major distortion in the market, perhaps indicating that it is working to a somewhat more cautious forecast of the PSBR outturn for the year. In the same way it rules out a reverse tender and/or auction for stock. It believes that such an operation would only succeed in moving the market against itself, thereby raising its cost of funding.

The Bank does, however, agree that for the foreseeable future it appears likely the market will contract in size relative to the economy and nominally. It is encouraged by the rebirth of the Eurosterling market, but believes the gilt market is central to its efficient operation.

The PSBR forecast in the Autumn Statement, which will include the quotient of British Steel to be sold this financial year, is the next most up-to-date estimate the Bank will be working on. Its estimates are, however, modified continually to take account of cash flows of gilts within the market, intervention and National Savings and, like the Chancellor, it has a healthy disrespect for forecasts.

Up to the end of September it has managed successfully to achieve a full fund of the PSBR. At that date it was about £500m overfunded. It is keeping its counsel as to how much it has bought in this financial year but finds some of the high estimates in the market fanciful.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on OCTOBER 21

Full Panel sits in judgement on bid for Gold Fields

By Clare Pearson

THE TAKEOVER PANEL will discuss in full session this afternoon, and is expected to let both sides know by tonight, whether to call a temporary halt to Minorco's £2.9bn hostile bid for Consolidated Gold Fields.

It would be a highly unusual step for the full Panel to override an earlier judgement of its executive, which had rejected putting the bid on hold.

But Gold Fields is hoping to persuade it that the appointment of Department of Trade and Industry inspectors to investigate allegations of insider dealing in its shares before the bid's announcement means there is sufficient evidence of criminal activity to justify calling a halt.

Meanwhile, Lord Young, the Secretary for Trade and Industry, is also expected to make an announcement, prior to the bid's first close tomorrow afternoon, on whether it should be referred to the Monopolies and Mergers Commission.

Thomas Robinson pays £8m for Dom

By Fiona Thompson

THOMAS ROBINSON Group, the engineering mini-conglomerate, has bought Dom Holdings, a manufacturer and distributor of fixing and fastening products used in the building industry, for £8m in cash from Wickes, the home improvement and building products retailer.

Mr Henry Sweetbaum, chairman and chief executive of Wickes, said Dom was the second Hunter company Wickes had sold this week. "Both Keith Young Insulation, sold to Pilkingtons last Monday, and Dom were earmarked for disposal because they did not form part of our core activities." Together these disposals will reduce Wickes' borrowings by £17.4m.

The net book value of Dom is approximately £4.4m. For the nine months to December, 1987 Dom reported a £1.09m pre-tax loss on turnover of £13.3m.

A large company which thinks like a small one

Nikki Tait examines if recent developments at Hillsdown signal a change in corporate philosophy

HARRY SOLOMON, chairman of the food, furniture and property group Hillsdown Holdings, tells a good story about a rival who casually inquired about the group's strategic planning committee.

Mr Solomon had a problem. Hillsdown does not have a strategic planning committee. And it certainly does not have a set of two-year, five-year and seven-year strategic planning committees - which was what this fallow corporate boss seemed to expect.

In fact, perched in the company's modest North London head-quarters above Hampstead High Street, any proliferation of administrative structures appears to be the last thing in Mr Solomon's mind. "We would like to be seen," he suggests, "as a large company which thinks like a small company".

That, arguably, is precisely where the City's problems begin. The size of the company cannot be disputed; in less than four years, Hillsdown's market capitalisation has mushroomed from the £274m at which it was floated on the stockmarket in early-1985 to over £1.1bn. Turnover, which was running at under £1bn in 1984, topped £3bn in 1987.

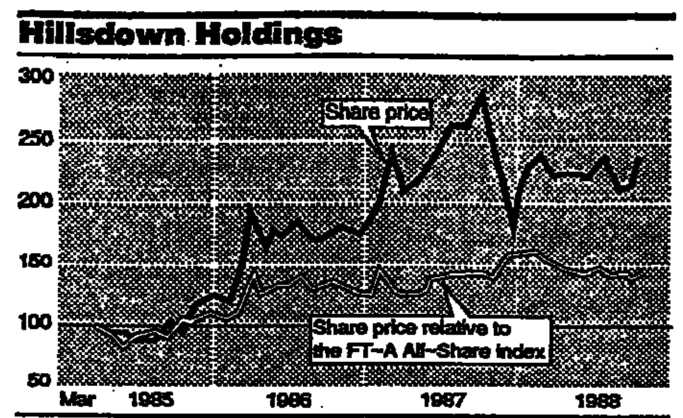
But this "small company" element also sums up niggling City doubts which surround the group. These can be rationalised into certain specifics - the willingness to take on hefty gearing levels, for example, or its penchant for the odd deal outside its mainstream food activities.

Such worries have come home to roost. Despite some healthy outperformance of the FT-All Share since its market launch and impressive profits growth, Hillsdown shares have gone precisely nowhere over the past 12 months. Moreover, since Black Monday, they have underperformed the food manufacturing sector, admittedly flush with bid candidates, by about 15 per cent. As one analyst puts it, "In a bearish market, people are looking for excuses. If you push the shares at a fund manager, then he's got a raft of reasons why not."

It is problem which has certainly not escaped the company. So is it reacting?

From a superficial glance, it would be easy to assume that the answer is yes. In August, for instance, Hillsdown disposed of its 73 per cent stake in Hunter, a separately quoted timber merchanting group to DIY retailer Wickes - with the retailer making an agreed £283m bid for the timber company.

Two weeks ago, it placed a 29.3 per cent holding in Anglo United, the opencast coal-mining group headed by David McErlain, a friend of Hillsdown's co-founder, Mr David Thompson. The Anglo stake, acquired in late-1986, was generally regarded as one of Hillsdown's more maverick moves given that coal-mining had little direct relevence to existing interests, although it has exited with healthy profit.



There has also been talk of floating Rugby Securities, the UK property development subsidiary — an intention which Hillsdown broadly confirms, subject to market conditions. Another, more distant, idea is to conduct a similar operation with some of the North American interests - in particular, the Clearwater fish businesses.

And there have been subtler changes. Hillsdown, which has always stressed internal promotion, has recently made a couple of senior appointments from outside, for example, and publicity about acquisitions has abated.

The company itself, however, appears ambivalent over whether this should be read as a real change of corporate philosophy. "We do want a preponderance of international food companies," says Mr Solomon, "but there are also very good businesses outside food, which we want to develop. We seem to have to apologise for the other interests, which should be a protection rather than a disadvantage."

He points out that although Hillsdown has taken some cash out of the Hunter deal - around £145m, which goes a long way to reducing gearing from almost 100 per cent at the end of 1987 to a widely-forecast 50 per cent by end-1988 - it has also acquired a one-fifth stake in the retail group. Equally, while part of the rationale behind any flotation of Rugby would be the distancing of a cash-absorbant business, Hillsdown would envisage retaining a minority stake.

On the other side, the number of acquisitions, although no longer shouted from the roof-tops, has actually been fairly well sustained. Some twenty deals, mainly relatively small food-related acquistions in Europe and North America, have been done in the current financial year. Moreover, moves into Europe are expected to continue - not just on 1992 grounds, but also because food companies there are seen as far more reasonably priced.

Analysts, too, doubt whether the corporate spots have really changed. The pressure to reduce gearing, it is suggested, explains many of the recent developments. Moreover, although the proportion of profits coming from food activities should rise - thereby playing down the conglomerate image - an equally important question is how quickly the quality of the food earnings themselves will rise.

In the words of one company-watcher, "One of the fundamental problems is that Hillsdown bought a large number of struggling companies. It's a question of turning them into reasonable businesses and expanding margins."

Again, directors recognise the question - and for some years have stressed the company's intention to steam down the "value-added", higher-margin food product route, pointing to sums spent on capital investment. But, inevitably, that is not a change effected overnight. For the present, Hillsdown is still seen as a little too close for comfort to agricultural cycles - witness, for example, the impact of recent weakness in the domestic poultry market on that division's fortunes.

All these issues, it should be stressed, do not imply bottom-line disapointments. Most analysts predict £150m-plus before tax in 1988, against £110m last time, and earnings growth (despite a rising tax charge) of over 20 per cent. Come 1989, over £180m is expected - which, coupled with the record since flotation, would leave many companies laughing.

In terms of the share price, matters may be more difficult. When David Thompson placed out out half of his 29.5 per cent holding in Hillsdown in April 1987 and stepped down from any executive boardroom role, he undertook not to sell any more shares until January 1989. The mere thought, justified or not, of this ongoing stake eventually finding its way to the market is scarcely guaranteed to encourage the average fund manager.

In short, then, it seems that a wary market may take some persuading for a while yet. Growing-up, after all, is usually a long haul.

Blenheim in German deal

IN A move designed to broaden its presence on the continent, Blenheim Exhibitions Group, already Europe's largest trade exhibition and trade fair organiser, has acquired Heckmann of West Germany for a maximum of DM 18m (£5.7m). This is USM-quoted Blenheim's first acquisition in Germany and gives it representation in the three largest economies in Western Europe.

Initial consideration of DM 16m is to be satisfied by the issue of 874,364 new shares, of which 830,373 have been placed by Lloyds Merchant Bank at 580p per share. There is a possible further payment of DM 2m cash dependent on Heckmann's profit performance in 1989.

Heckmann's trading record has been uneven caused by the two- or four-year cyclical pattern of the major events it handles.

Its results (adjusted to conform with Blenheim's accounting policies) show pre-tax losses of DM 1.17m on turnover of DM 10.3m in 1987 compared with profits of DM 1.28m on turnover of DM 10.63m the year before. Blenheim reckons that Heckmann's results for the year to September 30 were close to break-even.

The German purchase follows recent acquisitions in France and Belgium, and Mr Neville Buch, Blenheim chairman, said that it represented a rare opportunity to enter the important German market, most of which was dominated by exhibition venues. Heckmann brought an established portfolio of events and would provide a platform for further growth within West Germany, he said.

Beradin surges midway

BERADIN Holdings, plantations and investment company, lifted its pre-tax profit from £87,000 to £254,000 in the first half of 1988.

Turnover advanced from £328,000 to £475,000 and there was a gain on exchange rates of £12,000 (loss £10,000). Earnings came through at 0.87p (0.29p).

Crops for oil palm fresh fruit bunches and rubber were ahead of estimates. Palm oil price was at a reasonable level and rubber showed strong progress, but had fallen back recently.

Cocoa had proved disappointing, and the area was being replaced with oil palms.

Morgan Crucible

Morgan Crucible is selling to Monostep and Balfour Beatty the freehold property at Northfields, Wandsworth, London, occupied by Morgan's wholly owned subsidiary, Morganite Special Carbons. The price is £11m, of which £1.11m was paid as a deposit on September 28, with the remainder payable on completion on August 1 1989.

English and International assets rise

Net asset value of English and International Trust increased to 305.2p as at October 5 1988, against 270p six months earlier.

With gross income up from £1.39m to £1.88m, after-tax revenue for the half year came to £714,000, against £596,000. Earnings per 25p share were 3.36p (2.8p) and an interim dividend of 1.5p (1.25p) is being paid.

BICC offshoot in £7m deal to consolidate

BICC's Australasian subsidiary, Metal Manufactures, has offered to take full ownership of Associated British Cables.

MM's £7m cash or share exchange offer for the outstanding 26 per cent values the whole of ABC at about NZ$56m (£26m).

The move represents a consolidation of its cables operations, following its acquisitions in the past year of the minority interests in Cable Makers Australia and Australia Standard Cables.

Kelt/Carless

Kelt Energy has acquired a further 500,000 shares in its target, Carless, at 111p each.

It is now the beneficial owner of 10.44m shares, or 5.82 per cent.

Crown Comms offer

Crown Communications is not proceeding with its recommended £5.6m offer for Radio Mercury, independent local radio station, following the IBA's refusal to grant permission for its acquisition of 100 per cent of Mercury.

Kenyon rights

Kenyon Securities rights issue has been taken up in respect of 3.9m shares (83.7 per cent).

FINANCIAL TIMES STOCK INDICES

	Oct. 21	Oct. 20	Oct. 19	Oct. 18	Oct. 17	Oct. 14	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	89.06	89.15	89.37	89.21	88.86	88.65	91.43	86.28	127.4	49.18
Fixed Interest	97.75	97.75	97.62	97.52	97.57	97.51	98.67	94.14	105.4	50.53
Ordinary	1509.3	1512.5	1513.2	1509.5	1510.9	1494.0	1514.7	1349.0	1926.2	49.4
Gold Mines	168.9	170.7	174.9	176.4	174.1	174.1	312.5	162.7	734.7	43.5
FT-Act All Share	968.02	969.09	963.26	964.35	965.05	955.69	978.58	870.19	1238.57	61.92
FT-SE 100	1859.3	1864.3	1862.5	1857.0	1860.3	1840.6	1879.3	1694.5	2443.4	986.9

UK COMPANY NEWS

Scots pin their hopes on MMC referral

James Buxton looks at the reaction to the Elders bid for Scottish & Newcastle

IF JOHN ELLIOTT, chairman of Elders IXL, had imagined that he would win over influential Scottish figures in the early stages of his fight to acquire Scottish & Newcastle, he must now be disillusioned.

After a week which has seen some well-targeted lobbying of important Scottish personalities and organisations, there has been little sign that Scots are impressed by his striking promise to move the UK headquarters of Elders IXL to Edinburgh if his bid for S & N is successful.

On the contrary, there are signs of an orchestrated campaign among politically-attuned organisations to seek to have the bid referred to the Monopolies and Mergers Commission.

Most Scottish financial institutions, however, are likely to take a purely commercial view. Royal Bank of Scotland, the biggest Scottish bank, is expected to subscribe to a loan being raised by Elders to finance its bid.

Mr Elliott's promise to move the headquarters of Courage to Edinburgh and run all Elders' operations - including its proposed expansion in continental Europe - from the Scottish capital, was a good pre-emptive move against the Scots lobbies. But Scots are able to point to the fact that a similar promise was made by Guinness in its battle for Distillers, and then reneged upon.

That attitude may seem paranoid. But Mr Hamish Morrison, chief executive of the widely-representative Scottish Council Development and Industry, points out that the commitment would be more convincing if Mr Elliott were backing it with a promise of increased numbers of jobs, rather than merely a commitment to no net job losses. Would the proposed headquarters be more than the office of a few top executives?

In any case the Scots want Edinburgh to be the headquarters of an independent group, not that of a subsidiary of an Australian multinational. In the past few years successive takeovers of Scottish-based companies like Anderson Strathclyde, (the mining equipment maker), Arthur Bell (whisky), Coats Patons (textiles) and Britoil have left Scotland with almost no big locally-based industrial companies, S & N being the biggest industrial employer left. Scots feel that their economic destiny is no longer in their hands.


John Elliott (left) chairman of Elders, and Malcolm Rifkind, the Scottish Secretary.

Efforts to block the Elders bid are concentrating on getting it referred to the Monopolies and Mergers Commission. The Scottish Council has called for this, as has Scottish Financial Enterprise, which represents the Scottish financial services sector. Its director, Professor Jack Shaw, says he believes that the Government, having allowed Nestlé to acquire Rowntree Mackintosh without intervening, must now review the question of takeovers of major regionally based companies before it is too late.

The campaign is increasingly acquiring political overtones. On Friday the Scottish Business Group, a committee of senior businessmen created last year by Mr Malcolm Rifkind, the Scottish Secretary, to help the Conservative Party, pronounced unanimously in favour of an MMC reference.

Mr Rifkind himself said, when the bid was announced, that he "noted S & N's judgement that there are very strong arguments" for a referral. The Director of Fair Trading would "have to consider very carefully all the information which S & N put before him," he said.

Mr Rifkind and his party are worried about the parliamentary by-election being held in Govan, Glasgow, on November 10. It looks an ultra-safe Labour seat, but the Scottish National Party, whose fortunes are currently rising, is mounting a strong challenge to Labour with a powerful candidate, Mr Jim Sillars.

If the Government is seen to do nothing to protect S & N it could boost the SNP, and a win in Govan could set a Nationalist bandwagon rolling, similar to that of the 1970s.

But plausible grounds for a referral seem slender, given the absence of a geographical overlap between Courage and S & N and the fact that the Government has hitherto ignored regional factors.

S & N hopes, however, to make play of an MMC statement in 1985 (when S & N bid for Matthew Brown) which reads: "There may well be a strong case, on public interest grounds, against acquisition of a regional brewer by any of the five largest national tied-estate brewers." Courage is one of those five.

Dalgety's £10m for Hunters

APPLETREE Holdings has succeeded in selling Hunters Foods, its Corby-based snack foods division. The purchaser is Dalgety, which will pay £10m cash and assume external borrowings of £5.9m.

At the beginning of last month Appletree announced that it was seeking a buyer for Hunters, with which it merged in April 1987. The company said in spite of a recent improvement in trading performance Hunters was expected to incur a loss for the year to October 20 1988.

For its part Dalgety decided on the purchase in preference to rebuilding its Golden Wonder Corby factory, which was destroyed by fire on September 26. It adds 5 per cent of the UK crisp market to the 15 per cent already held by Golden Wonder, and enables it to maintain supplies in a fiercely competitive market.

"We could not expect our customers to wait more than a year for the new factory to be built", Dalgety said.

Mr David Johnson, chairman of Appletree, said Hunters had significant potential but he felt the financial resources needed would be better directed to the group's other divisions, the Kildare Group and Appletree Fresh Produce.

Following the conclusion of negotiations there are board changes at Appletree. Mr Johnson relinquishes the chair to devote more time to his personal interests; he remains on the board and takes over as deputy chairman from Mr Roger Wreford, who will also stay as a director. Mr Maurice Webb has been appointed chairman and chief executive.

The deal is subject to the consent of Appletree shareholders, but holders accounting for 62.7 per cent of the capital will vote in favour.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY
Finals- Scottish Metropolitan Property.

FUTURE DATES

[illegible]

Ultramar Canada in C$85m lead phase-out

By Fiona Thompson

ULTRAMAR CANADA, a subsidiary of Ultramar, the diversified UK oil company, is to invest more than C$85m (£40.52m) in its Quebec refinery to enable it to phase out the production of leaded petrol.

Mr Jean Gaulin, president of Ultramar Canada, said that the 18-month investment, the first of three upgrading programmes, was aimed at accommodating "the increasing demand for unleaded gasoline by consumers, in accordance with the accelerated schedule recently announced by the Canadian government".

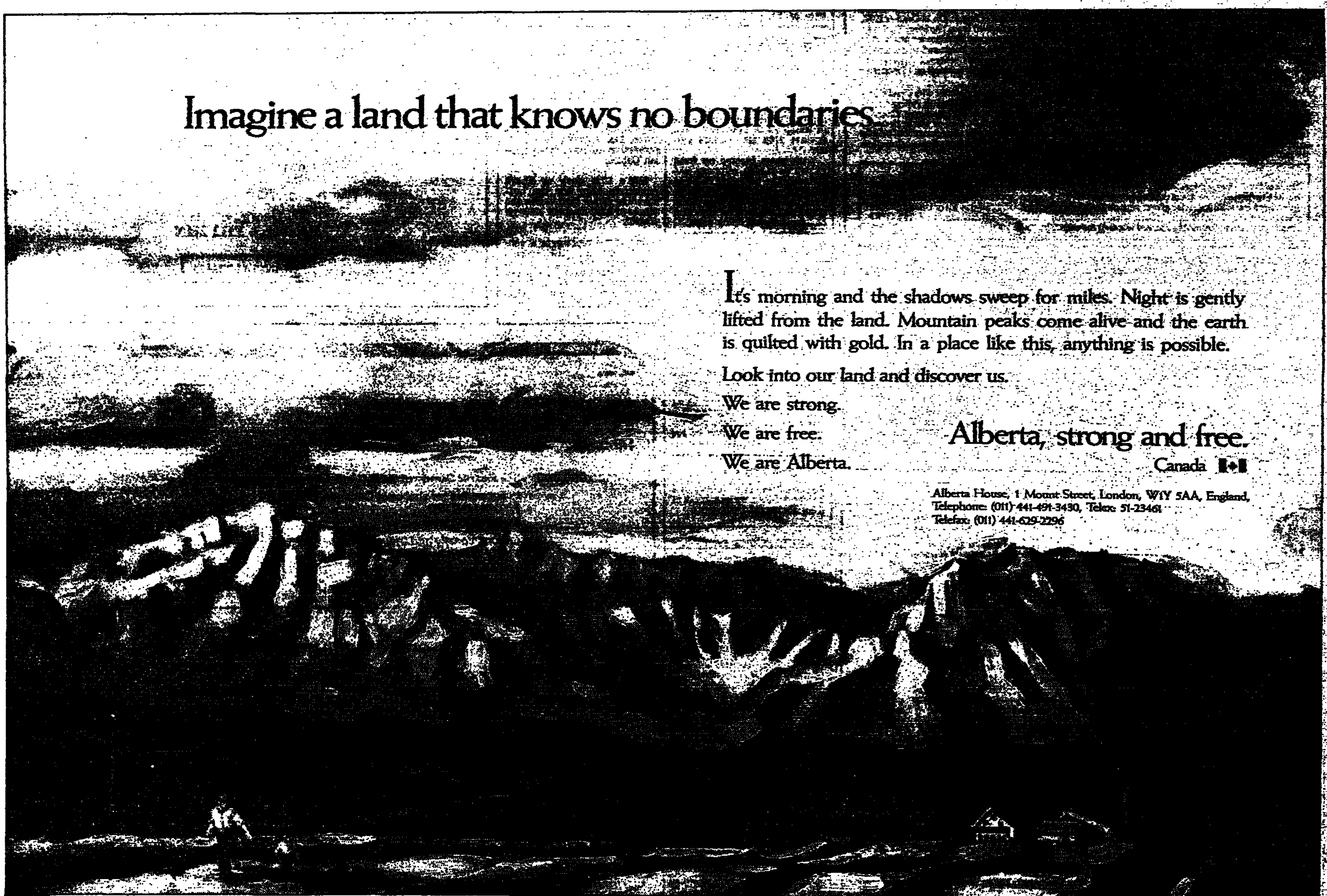
The project would "increase Ultramar's refining capacity by about 10 per cent and reduce the need to import finished and semi-finished products into Quebec," he said.

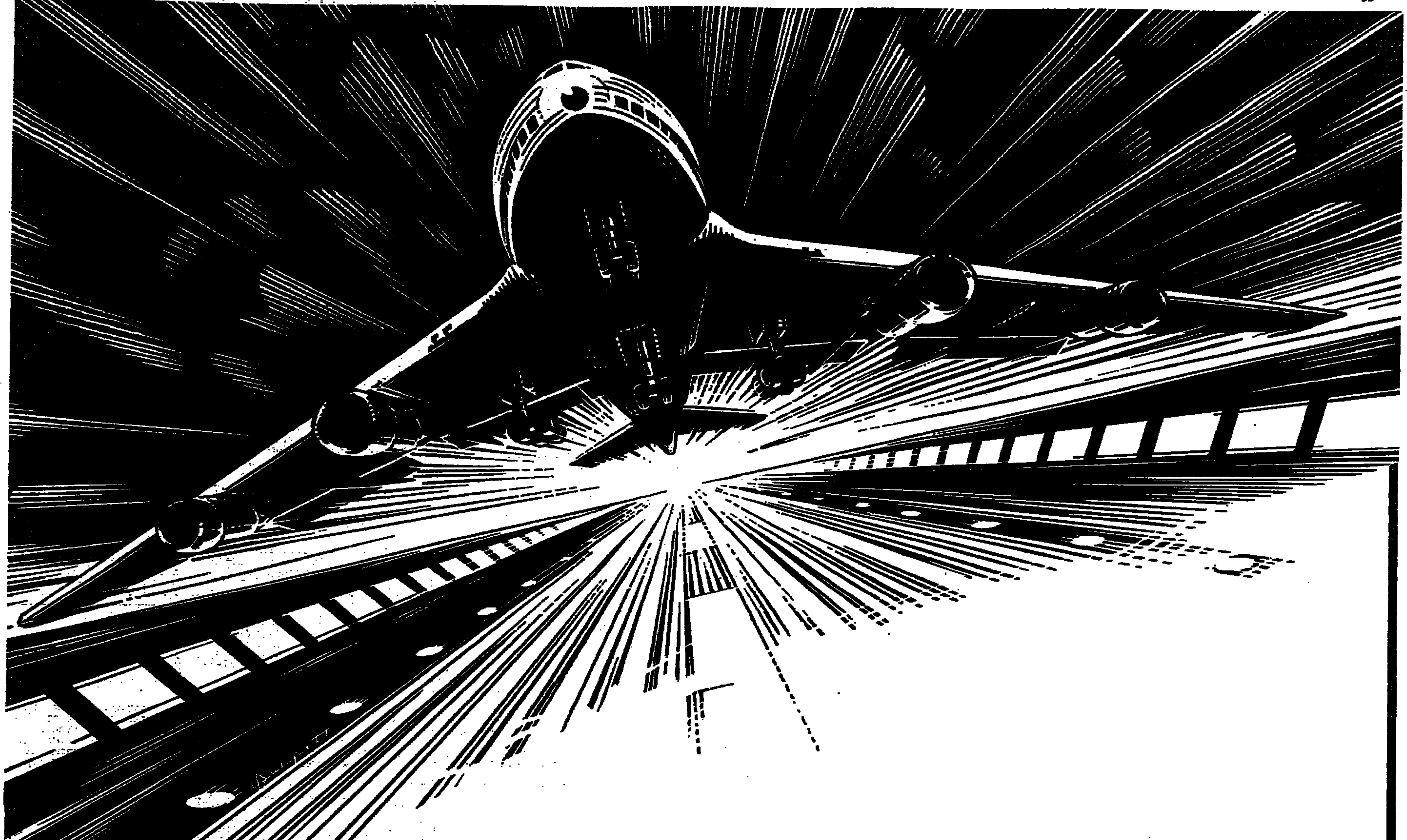
During the next two years, Ultramar will spend an additional [illegible] for maintenance, safety and environmental protection.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition: [illegible] (Section: Industrials).

Nationwide Anglia Building Society [illegible] (Loans-Building Societies).





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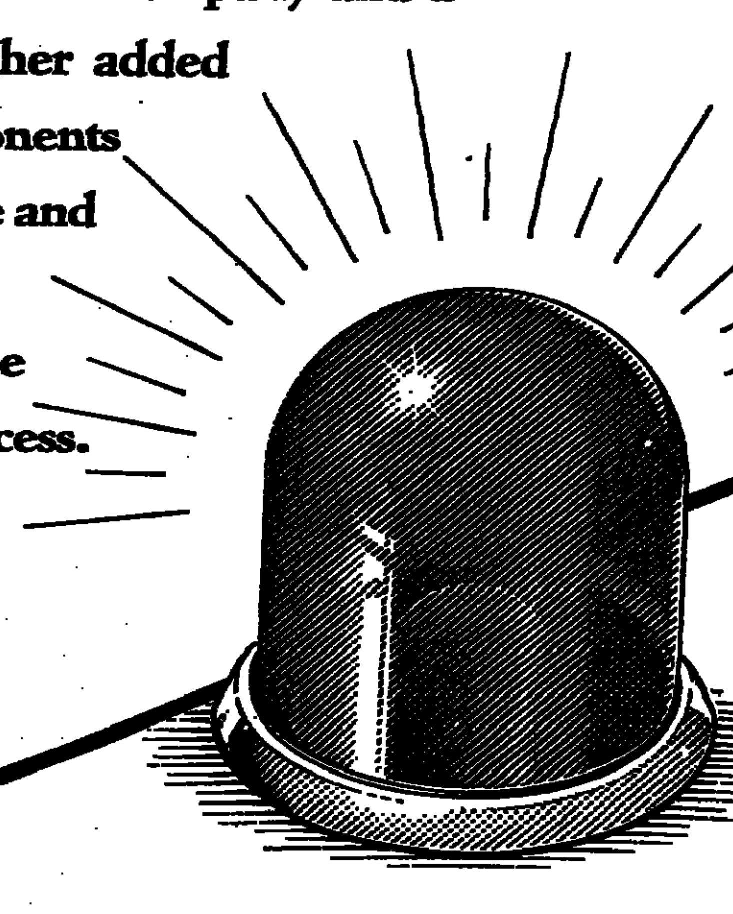


Lucas

Aerospace, Automotive, Industrial Systems and Components.

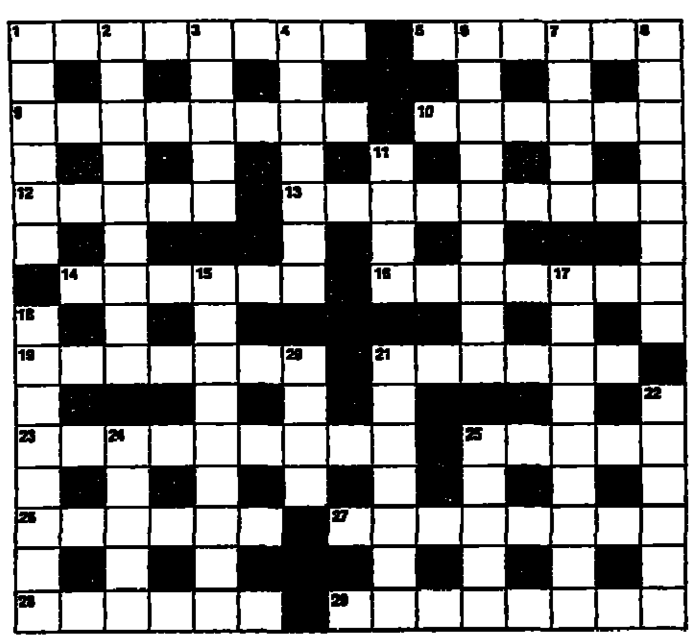
FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CROSSWORD

No. 6,767 Set by DANTE



ACROSS

1 Mother is surrounded by excited Latins, exhibiting charm (8)
5 Stewed hash may suit the countryman (6)
9 It makes it relatively easy to *choose people for jobs* (8)
10 Harp on about an unfortunate child (6)
12 How one comes to confess (5)
13 Adverse criticism of boat race overridden (6,3)
14 Concedes there are about a thousand approaches (6)
16 Enormous disaster struck it (7)
19 Crane is of the German strain (7)
21 I'm rejected with anger that's more apparent than real (6)
23 Telephoning, hung up (2,3,4)
25 Fantastic or very unfinished Parisian fashion (5)
26 Prophet is first class, given a head-start (6)
27 Offer resistance and don't go unnoticed (5,3)
28 Something good to drink to (6)
29 It may produce winter ailments leading to little sleep (4,4)

DOWN

1 Medicines that vary in cost (6)
2 He sees what one says (3-6)
3 Determined to put up the cash (3,2)
4 Promises certain to be kept *by a fool* (7)
6 Battle in Chinatown (9)
7 What might be there to put you out? (5)
8 Old port with a square meal (8)
11 Request to remain true to type? (4)
15 Traveller in nitrate gets new order (9)
17 Willie Winkie's running gear (9)
18 Warn a pretty girl about a Scotsman (8)
20 Work to furrow the brow (4)
21 Musician having ear most developed (7)
22 Sensible car drivers do keep quiet (4,2)
24 A temple ornament? (5)
25 Had acknowledged (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 5.

[illegible]

GUIDE TO UNIT TRUST PRICING

The data included under the Authorised section of the FT Unit Trust information pages is being expanded to improve the service to readers and to conform with new legislation.

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ✱ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ● - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that prices are set on a historic basis. This means that, unless there has been an intervening portfolio revaluation, investors can normally buy and sell units today at the prices appearing in the newspaper which have been set on the basis of yesterday's asset value.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out last Friday.
Other explanatory notes [illegible] pages.

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

Lazard Investors Ltd

Exempt Funds

	Bid Price	Offer Price	Yield Gross	Cit-Line
Small Co's Oct 17	4055.7	4475.4	1.6	40766
European Oct 17	365.9	[illegible]	0.9	[illegible]
American Oct 17	278.2	[illegible]	2.5	[illegible]
Far Eastern Oct 17	[illegible]	[illegible]	0.7	[illegible]
Australian Oct 17	[illegible]	[illegible]	[illegible]	[illegible]
Scotland Sept 13	[illegible]	[illegible]	0.8	[illegible]
Northumbria Sept 12	[illegible]	[illegible]	1.5	[illegible]
North West Sept 12	233.2	[illegible]	[illegible]	[illegible]
East Coast Sept 15	[illegible]	[illegible]	1.2	40770
W Midlands Aug 31	195.6	215.2	1.5	40771
2nd Lds Mkt Sept 20	132.4	[illegible]	[illegible]	[illegible]
Property Oct 6	2030.0	3000.0	5.2	40777
Int Gilt Pro July 7	1360.6	1420.0	7.0	[illegible]

Local Authorities Mutual Invest. Tst.*

2 Fore Street, London EC2Y 5AQ 01-588 1815

	Bid Price	Offer Price	Yield Gross	Cit-Line
Property Sept 30	211.95		3.71	[illegible]
Equity Sept 30	704.80		3.40	[illegible]
Fxd Int.Sec.Sept 30	98.95		9.49	[illegible]

* Available only to Local Authorities

MIM Ltd

	Bid Price	Offer Price	Yield Gross	Cit-Line
Mayo Pens (Acc)	55.6	59.3	0.80	41087

Murray Johnstone UT Mngmt

Money Exempt Funds

	Bid Price	Offer Price	Yield Gross	Cit-Line
Amer Exmt Oct 19	39.9	41.6	2.24	[illegible]
Euro Exmt Oct 19	41.7	43.7	2.52	[illegible]
Fixed Int Ex Oct 19	49.7	52.0	9.46	-
Japan Exmt Oct 19	[illegible]	55.0	0.45	[illegible]
Managed Ex Oct 20	39.5	40.8	4.42	41067
SE Asia Exmt Oct 19	34.8	36.5	1.95	[illegible]
Sm Cos Exmt Oct 19	43.7	45.8	2.38	[illegible]
UK Eqty Ex Oct 19	35.9	37.6	5.1	41070

New Court Property Fund Managers

	Bid Price	Offer Price	Yield Gross	Cit-Line
NC Property	191.5	209.3	-	41205

Phillips & Drew Fnd Management Ltd

	Bid Price	Offer Price	Yield Gross	Cit-Line
PDFM Small Co Fnd	771.0	817.0	3.25	[illegible]
Do Accum	795.0	844.0	3.75	[illegible]
PDFM Int.Exmt Oct 20	125.2	127.3	2.75	[illegible]

J. Rothschild Fund Managers Ltd

	Bid Price	Offer Price	Yield Gross	Cit-Line
Intl Exempt	93.66	94.73	2.42	40272

INSURANCES

OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Norwich Union Asset Management Ltd
PO Box 124 Norwich NR1 3JS 0603 683986

	Bid Price	Offer Price	Yield Gross	City-line
NUAM Funds				
Managed Fund	55.3	58.3	-	43191
Stock Market Mngd Fund	53.0	55.8	-	43192
Equity Fund	57.3	60.4	-	43193
International Fund	49.4	52.1	-	43194
European Fund	51.3	54.0	-	43195
North American Fund	46.0	48.5	-	43196
Pacific Fund	59.3	62.5	-	43197
Property Fund	66.5	70.0	-	43198
Fixed Interest Fund	53.3	56.2	-	43199
Index Linked Sec Fund	53.5	56.4	-	43200
Deposit Fund	54.5	57.4	-	43201
NUAM Retirement Plans				
Mixed Fund	58.8	61.9	-	43202
UK Ordinary Share Fd	66.5	70.0	-	43203
International Fund	50.7	53.3	-	43204
Property Fund	64.6	68.0	-	43205
Fixed Interest Fund	57.3	60.3	-	43206
Index Linked Sec Fund	53.8	56.6	-	43207
Deposit Fund	58.6	61.7	-	43208
NUAM (NF)				
Managed Fund	754.3	794.0	-	43209
Equity Fund	1497.5	1576.4	-	43210
Property Fund	414.3	436.2	-	43211
Fixed Interest Fund	394.0	414.8	-	43212
Deposit Fund	223.2	235.0	-	43213
International Fund	128.8	135.6	-	43214
Index Linked Sec Fund	53.7	56.6	-	43215

Norwich Union Life Insurance Soc.
PO Box 149 Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	Yield Gross	City-line
Unitised Pensions				
With Profits Fd	107.06	112.70	-	43216
Managed Fd	118.79	125.04	-	43217
UK Equity Fd	123.12	129.61	-	43218
International Fd	120.33	126.66	-	43219
European Fd	114.04	120.04	-	43220
North American Fd	115.47	121.55	-	43221
Pacific Fd	112.56	118.48	-	43222
Property Fd	117.51	123.70	-	43223
Fixed Int Fd	101.48	106.82	-	43224
Intl Bond Fd	105.32	110.86	-	43225
Bldg Soc Dep Fd	102.31	107.69	-	43226
Pensionmaster & Unit-Linked Plus				
Fixed Interest Fund	285.9	301.0	-	43227
Index-Linked Sec Fund	152.0	160.0	-	43228
Ordinary Share Fund	479.0	504.2	-	43229
International Fund	128.5	135.2	-	43230
Property Fund	199.4	209.9	-	43231
Deposit Fund	183.2	192.8	-	43232
Mixed Fund	324.3	341.4	-	43233
Norwich Units October 15		822.3	-	43234

*Prices as at October 18

Pearl Assurance (Unit Funds) Ltd
252 High Holborn London WC1V 7EB 01-405 8441

	Bid Price	Offer Price	Yield Gross	City-line
Prop Acc (Gross)	178.6	188.1	-	43235
Prop Acc (Gross)	289.2	304.5	-	43236
Equity (Gross)	681.1	717.0	-	43237
Managed (Gross)	486.2	511.8	-	43238
Prop Acc (Net)	133.6	140.7	-	43239
Equity (Net)	158.5	166.9	-	43240
Managed (Net)	148.9	156.8	-	43241
International (Net)	134.1	141.2	-	43242
Gilt & Fixed Interest	102.2	107.6	-	43243
Money Fund	101.4	106.8	-	43244
Pearl Assurance (Unit Linked Pens) Ltd				
Ret. Man Series 1	463.8	488.3	-	43245
Ret. Man Series 2	157.3	165.6	-	43246
Ret. Man Series 3	103.6	103.6	-	-
Ret. Cash	125.9	132.6	-	43247
Ret. Cash (Series 3)	103.2	103.2	-	-

Phoenix Assurance Co Ltd
Phoenix House Redcliff Hill, Bristol 0272 294941

	Bid Price	Offer Price	Yield Gross	City-line
Life Assurance Funds				
Wealth Ass	394.2	415.0	-	43248
Ebor Ph Eq	347.7	369.9	-	43249
Pension Plan Funds				
Phoenix				
UK Equity Acc	173.4	182.5	-	43250
International Acc	142.1	149.5	-	43251
Property Acc	151.8	159.7	-	43252
Fixed Interest Acc	160.1	168.5	-	43253
Money Acc	145.3	152.9	-	43254

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Pacific Initial		58.7	-	43438
Technology Initial		81.3	-	43439
Nat Resources Initial		48.5	-	43440
Japan Growth Initial		185.7	-	43441
European Initial		72.0	-	43442
Residential Prop Init		117.5	-	43443
Swiss Equities Initial		33.2	-	43444
Hong Kong Initial		43.0	-	43445
UK High Inc Eq Init		62.0	-	43446
Int Fixed Interest Init		48.9	-	-
Int Managed Init		46.9	-	-
Broker Fund				
Townhill Mngd Fd Acc	46.9	49.4	-	43447
High Performance	61.4	64.7	-	43448
YRA Executive Fd	78.4	82.7	-	43449
Investment Master		38.8	-	43450
H.F. Specialist Fd		112.0	-	43451
£ High Inc Money Fd		103.2	-	43452
£ Global Growth Fd		103.2	-	43453
PEP Accum II		101.4	-	-
AAFS Int Man Fund		100.6	-	-
Individual Pension Funds				
UK Equity Acc	211.3	222.9	-	43454
UK Fixed Interest Acc	162.8	171.8	-	43455
Intl Equities Acc	166.6	175.8	-	43456
UK Managed Acc	152.0	160.3	-	43457
Property Acc	187.2	197.5	-	43458
Money Acc	114.5	120.8	-	43459
Special Market Acc	134.3	141.7	-	43460
Japanese Acc	220.4	232.5	-	43461
North American Acc	111.7	117.9	-	43462
Pacific Acc	134.5	141.9	-	43463
Technology Acc	130.2	137.4	-	43464
Natural Resources Acc	93.2	98.4	-	43465
Japan Growth Acc	254.7	268.7	-	43466
European Acc	87.3	92.1	-	43467
Residential Prop Acc	124.6	131.5	-	43468
Swiss Equities Acc	33.1	35.0	-	43469
Hong Kong Acc	42.4	44.8	-	43470
UK High Inc Eq Acc	66.1	69.8	-	43471
Int Fixed Interest Acc	49.5	52.3	-	-
Int Managed Acc	46.9	49.4	-	-
Broker Fund				
Townhill Mgd Pen Acc	39.6	41.7	-	43472
Group Pension Funds				
Equity Acc	623.7	643.0	-	43473
Fixed Interest Acc	456.1	470.3	-	43474
Managed Acc	103.8	105.8	-	43475

Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	Yield Gross	City-line
Unit Fund	908.3	953.7	-	43476
Equity Fund	203.3	213.5	-	43477
International Fd	132.3	138.9	-	43478
Fixed Interest Fd	153.4	161.1	-	43479
Property Fund	196.3	206.1	-	43480
Index-Linked Fund	129.5	136.0	-	43481
Deposit Fund	130.7	137.2	-	43482
Pens. Mixed (Def) Fd	211.0	221.6	-	43483
Gold Pensions				
Discretionary Fund		102.4	-	-
Equity Fund		99.7	-	-
Fixed Interest Fund		105.1	-	-
International Fund		98.7	-	-
Property Fund		116.9	-	-
Index-Linked Fund		105.7	-	-
Deposit Fund		102.6	-	-
S & F Consolidation		103.2	-	-
S & F Balanced		101.0	-	-
S & F Maximum Growth		96.0	-	-

Provident Mutual Life Assc. Assn.
Walton Rd, Hitchin, Herts SG4 0LP 0438 739000

	Bid Price	Offer Price	Yield Gross	City-line
Managed Ord	294.4	309.9	-	43484
Managed Init	241.7	254.4	-	43485
Equity Ord	415.0	436.8	-	43486
Equity Init	340.8	358.7	-	43487
Index Linked Gilt Ord	129.3	136.1	-	43488
Index Linked Gilt Init	110.9	116.7	-	43489
Overseas Equity Ord	260.4	274.1	-	43490
Overseas Equity Init	213.9	225.2	-	43491
Property Ord	176.3	185.6	-	43492
Property Init	144.8	152.4	-	43493
Fixed Interest Ord	175.3	184.5	-	43494
Fixed Interest Init	144.0	151.6	-	43495
Deposit Ord	136.8	144.0	-	43496
Deposit Init	112.4	118.3	-	43497

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

Five to Fifteen Years

Amount £m	Stock	Price £	Red Yld	Last xd	Interest Due	City-line
1,250	Treas 13¼pc 1993‡‡	114	9.94	17.10	23May 23Nov	1304
1,050	Treas. 8½pc 1994	94	9.92	27.6	3Aug 3Feb	–
–	Treas 8½pc 1994 A	94			3 Feb 3 Aug	–
600	Treas 14½pc 1994‡‡	118	9.88	26.7	1 Sep 1 Mar	1307
1,100	Exch 13½pc 1994	114	10.01	20.9	27Oct 27Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	100	9.80	9.5	9Dec 9Jun	1284
1,550	Exch. 12½pc 1994	110	9.99	18.7	22Feb 22Aug	1263
1,600	Treas 9pc 1994‡‡	96	9.72	11.10	17May 17Nov	1345
2,350	Treas 12pc 1995	109	9.97	20.6	25Jul 25Jan	1294
229	Exch 3pc Gas 90–95	82	6.42	26.9	1Nov 1May	1271
2,100	Exch. 10¼pc 1995	101	9.85	14.6	21Jan 21Jul	1254
1,000	Treas 12¾pc 1995‡‡	114	9.86	10.10	15May 15Nov	1298
900	Treas. 14pc '96	120	9.97	15.6	22Jul 22Jan	1305
750	Treas. 9pc 1992–96‡‡	97	9.56	9.8	15Sep 15Mar	1344
1,350	Treas 15¼pc 1996‡‡	127	9.94	27.9	3Nov 3May	1309
800	Exch 13¼pc 1996‡‡	117	9.84	10.10	15Nov 15May	1268
1,109	Conversion 10pc 1996	101	9.77	10.10	15May 15Nov	1240
1,500	Treas 13¼pc 1997‡‡	118	9.83	15.6	22Jul 22Jan	1302
3,100	Exch 10½pc 1997	103	9.76	15.7	21Aug 21Feb	1253
3,750	Treas 8¾pc 1997‡‡	95	9.58	26.7	1Mar 1Sep	1341
1,000	Exch 15pc 1997	129	10.02	20.9	27Apr 27Oct	1269
2,850	Exch. 9¾pc 1998	100	9.72	13.6	19 Jul 19 Jan	1273
1,000	Treas 6¾pc 1995–98‡‡	84	9.23	26.9	1Nov 1May	1331
1,100	Treas. 15½pc '98‡‡	134	9.90	24.8	30Mar 30Sep	1308
2,500	Exch. 12pc 1998	113	9.79	14.10	20May 20Nov	1259
1,250	Treas 9½pc 1999‡‡	99	9.51	8.6	15Jul 15Jan	1347
2,900	Exch. 12¼pc 1999	115	9.78	22.8	26Sep 26Mar	1264
1,252	Treas. 10½pc 1999	105	9.69	13.10	19Nov 19May	1288
1,548	Conversion 10¼pc 1999	103	9.70	17.10	22May 22Nov	1242
1,200	Treas. 8½pc Ln 2000‡‡	93	9.48	21.6	28Jan 28Jul	1338
1,554	Conversion 9pc 2000‡‡	96	9.48	28.7	3Sep 3Mar	1244
1,817	Treas. 13pc 2000	121	9.83	7.6	14Jan 14Jul	1299
1,050	Treas 10pc 2001	103	9.55	20.7	26 Aug 26 Feb	1280
1,250	Treas. 14pc '98–01	124½	9.96	17.10	22Nov 22May	1306
802	Conversion 9¾pc 2001	101	9.53	4.7	10Feb 10Aug	1248
1,600	Exch. 12pc '99–02	113	9.82	15.6	22Jul 22Jan	1261
716	Conversion 10pc 2002	103	9.50	5.9	11 Oct 11 Apr	1241
1,450	Treas 9¾pc 2002	102	9.47	21.7	27 Feb 27 Aug	1349
1,300	Exch. 9pc 2002	96	9.43	13.10	19May 19Nov	1272
1,800	Treas. 13¾pc 2000–03	126	9.86	20.6	25Jan 25Jul	1303
1,000	Treas 10pc 2003	104	9.40	2.8	8 Mar 8 Sep	1281

Over Fifteen Years

Amount £m	Stock	Price £	Red Yld	Last xd	Interest Due	City-line
1,900	Treas. 11½pc 2001–04	112	9.66	15.8	19Sep 19Mar	1290
900	Treas. 10pc 2004	105	9.32	12.10	18 Nov 18 May	1282
443	Funding 3½pc '99–04	59	8.10	7.6	14Jan 14Jul	1274
1,362	Conversion 9½pc 2004	102	9.25	19.9	25 Apr 25 Oct	1246
1,881	Conversion 9½pc 2005	102	9.22	12.9	18 Oct 18 Apr	1247
1,050	Exch. 10½pc 2005	110	9.21	15.8	20 Mar 20 Sep	1251
2,200	Treas. 12½pc 2003–05	123	9.48	17.10	21May 21Nov	1295
1,800	Treas. 8pc 2002–06‡‡	90	9.12	1.9	5Apr 5Oct	1334
369	Conversion 9¾pc 2006	105	9.17	10.10	15May 15Nov	1249
3,150	Treas. 11¾pc 2003–07	117	9.46	15.6	22Jul 22Jan	1293
1,400	Treas 8½pc 2007‡‡	95	9.01	9.6	16Jan 16Jul	1339
1,250	Treas. 13½pc '04–08	133	9.39	22.8	26Sep 26Mar	1301
1,800	Treas. 9pc 2008‡‡	100	8.99	6.9	13Apr 13Oct	1343
1,000	Treas 8pc 2009	91	8.94	19.8	25Mar 25Sep	1336
369	Conv 9pc Ln 2011‡‡	100	8.89	6.6	12Jan 12Jul	1245
1,000	Treas. 5½pc 2008–12‡‡	68	8.66	4.8	10Mar 10Sep	1330
700	Treas. 7¾pc 2012–15‡‡	88	8.85	20.6	26Jul 26Jan	1332
1,000	Exch. 12pc '13–'17	130	8.94	6.5	12Jun 12Dec	1260

BRITISH FUNDS—Contd

Undated

Index-Linked

Amount £m	Stock	Price £	Red Yld	Last xd	Interest Due	City-line
1,100	Do. 2½pc '13(89.2)	95	3.75	11.7	16Feb 16Aug	1320
1,700	Do. 2½pc '16(81.6)	104	3.61	20.6	26Jan 26Jul	1321
1,400	Do. 2½pc '20(83.0)	101	3.55	9.9	16Oct 16Apr	1322
900	Do. 2½pc '24‡‡(97.7)	85	3.50	10.6	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1988:103.7 and for September 1988:108.4

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Amount £m	Stock	Price £	Red Yld	Last xd	Interest Due	City-line
50	African Dv Bk 11¼ Ln 2010	106	10.35	2.6	4 Jan 4 Jul	–
100	Asian Dev Bk 10¼pcLn2009	102	9.94	24.3	24Mar 24Sep	–
100	Australia 13½pc 2010	127	10.31	24.6	28Jan 28Jul	–
100	Do. 11¾pcLn2015	111	10.14	24.3	26Apr 26Oct	–
75	Euro Inv Bk 11pc Ln 2002	107	10.08	23.8	23Mar 23Sep	–
100	Do. 10¼pc2004	103	9.98	22.4	22Mar 22Nov	–
75	Int-Am Dev Bk 12½pc 2003	117	10.16	6.6	8Jan 8Jul	–
175	Do. 9¾pcLn 2015	97	9.99	13.4	15 May 15 Nov	–
75	Mlysia 10¼pcLn 2009	96	11.25	27.6	31 Jan 31 Jul	–
50	Nat. Mexican States 16½pc 2008	123	12.85	27.7	1Mar 1Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red Yld	Last xd	Interest Due	City-line
32	Birmingham 13½pc 1989	101½	11.20	20.4	20 May 20 Nov	1838
45	Do. 11½pc 2012	118½	10.30	14.10	15May 15Nov	1837
40	GLC 6¾pc 1990–92	90½	10.10	15.7	15Feb 15Aug	2647
40	Leeds 13½pc 2006	124½	10.50	9.9	1Apr 1Oct	3146
5	Liverpool 3½pc Irred	33	–	1.9	1Ja Apr Jy Oc	3169
25	LCC 6¾pc '88–90	95½	11.40	10.6	10Jan 10Jul	3198
26	Do. 3pc '20 Aft	30	–	1.8	1Mar Jn S D	3197
7	Manchester 11½pc 2007	110½	10.20	31.3	25Apr 25Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red Yld	Last xd	Interest Due	City-line
14	NZ 7¼pc 1988–92	90½	10.20	1.12	1Jan 1Jul	–
–	S Rhod 2½pc Non-Assd.	200	–	–	1Apr 1Oct	–
4	Do. 4½pc 87–92 Assd	84½	9.33	7.1	7Feb 7Aug	–

LOANS

Building Societies

Amount £m	Stock	Price £	Red Yld	Last xd	Interest Due	City-line
20	N'wide Ang 10¼pc 31.10.88	99	12.14	25.3	26Apr 31Oct	–
20	Do. 9¼pc 28.11.88	99	12.20	25.4	23May 28Nov	–
20	Do. 9¾pc 28.12.88	99	12.29	20.5	21Jan 28Dec	–
20	Do. 9½pc 23.1.89	99	12.30	17.6	23Jan 18Jul	–
20	Do. 9½pc 20.2.89	99	12.19	–	30Feb 15Aug	–
20	Do. 9½pc 13.3.89	99	12.13	8.8	13Mar 7Sep	–
20	Do. 9¼pc 17.4.89	98	12.21	12.9	17Apr 11Oct	–
20	Do. 9¼pc 8.5.89	98	12.21	–	8May 3Nov	–
20	Do. 8½pc 30.5.89	98	12.26	–	30May 23Nov	–
20	Do. 9¾pc 26.6.89	98	12.25	3.8	26June 20Dec	–
20	Do. 10½pc 17.7.89	98	12.17	–	–	–
20	Do. 11¼pc 7.8.89	99	12.14	–	–	–
20	Do. 11¾pc 29.8.89	99½	12.10	–	–	–
20	Do. 12¼pc 18.9.89	100	11.97	–	–	–
20	Do. 12½pc 2.10.89	100	11.94	–	–	–
60	Do. 3¾pcIL Ln 2021	98	4.46	19.7	30Jan 31Jul	3465

Public Board and Ind.

Amount £m	Stock	Price £	Red Yld	Last xd	Interest Due	City-line
3	Agric. Mt. 5pc '59–89	95	8.51	1.6	1Jan 1July	1532
25	Met. Wtr. 3pc 'B'	47	9.83	1.8	1Mar 1Sep	3361

Financial

Amount £m	Stock	Price £	Red Yld	Last xd	Interest Due	City-line
3	3i 11¼pc Un Ln '90	100	11.16	13.6	11Jan 11Jul	–
15	Do 7¼pcADb89–92	89	10.50	27.5	30Sep 31Dec	–
15	Do. 12½pc Un. Ln. 1992	104	10.72	15.2	14Mar 14Sep	–
10	Do. 7¼pc A 1991–94	86¼	10.42	29.2	31Mar 30Sep	–
10	Do. 9pc A 1991–94	95	10.06	5.9	31 Mar 30 Sep	–
9	Do. 8¾pc Ln 1992–97	92	10.31	1.8	31Aug 28Feb	–

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass	49	3.50	7.78	3.5	1May 1Nov	2763
4	Do. 6pc 28 Stb. Ass	45	3	6.67	1.8	1Feb 1Aug	2762
–	Do 4pc Mixed Ass	45	2	4.44	3.10	1Apr 1Oct	2761
1	Hung. '24 Ass	77	2.75	3.57	3.5	1May	2935
40	Hydro Quebec 15pc 2011	137	15.00	10.57	28.4	31May 30Nov	–
30	Iceland 14½pc Ln 2016	127	14.50	11.20	4.1	31Jan 31Jul	–
30	Ireland 9¾pc '91–96	99	9.75	9.90	1.8	1Mar 1Sep	3002

AMERICANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
6,316.2	Abbott Laboratories$	27½	$1.20	2.6	18.10	Fb My Ag Nv	1503
212.8	♦Allegheny & W 1c	412p	30c	4.3	–	–	–
1,563.7	Amax $1	12¾	020c	0.9	5.8	Mr Je Se De	1581
1,273.1	Amdahl 5c	12½	h10c	0.5	10.8	Mr Mr Ja Ag	–
2,575.4	Amer. Cyanamid $5	28	$1.20	2.5	22.2	Mr Je Se De	–
8,995.1	Amer. Express 60c	16¾	76c	2.6	4.10	Fb My Ag Nv	1594
823.1	Amer. Medical Int. $1	10¾	♦72c	4.2	11.1	Fb My Au Nv	–
16,789.2	American T. & T. $1	15	$1.20	4.5	27.5	Fb My Ag Nv	1597
7,628.2	Ameritech $1	54	$5.40	5.8	27.6	Fb My Ag Nv	–
450.8	Amfac$	27¼	–	–	11'84	Mr Ja Se De	–
3,623.2	Anheuser-Busch $1	18¾	60c	1.9	4.8	Mr Je Se De	1620
1,750.4	BankAmerica $1.5	962p	–	–	11'85	Fe My Au No	1744
1,789.2	Bankers N.Y. $1	22¾	$1.86	4.8	26.3	Ap Jly Oc Jan	1745
8,270.4	Bell Atlantic $1	41¾	$4.08	5.7	27.6	Fe My Au No	–
11,480.1	BellSouth Corp	23¾	$2.36	5.8	6.7	Fe My Au No	–
864.2	♦Bethlehem Steel $8	11¾	–	–	4.11	Mar Jun S D	1821
–	♦Bio-Rad Labs. Inc. 'A'	12	–	–	–	–	–
592.1	Bowater Inc	16½	92c	3.4	7.9	Oc Ja Ap Jy	1884
2,398.7	Browning-Ferris 16.6c	16¼	48c	1.7	14.5	Ja Ap Jly O	1986
1,014.6	Brunswick 75c	11	44c	2.3	20.10	F My Au N	1989
2,662.3	CPC Intnl. 25c	32½	$1.44	2.6	25.9	Jan Ap Jly O	2263
2,728.5	CSX $1	17½	$1.24	4.2	22.2	M.J.S.D.	–
88.6	California Engy.	730p	–	–	–	–	–
358.4	CalFed Inc $1	12½	$1.40	6.8	23.8	Mr Je Sp Dc	–
2,611.3	Campbell Soup 15c	20½	84c	2.5	4.1	Oc Ja Ap Jy	–
3,524.4	Caterpillar Inc $1	34¾	75c	1.3	19.10	F My Au N	–
1,367.3	Chase Manhattan $12½	16¾	$2.16	7.6	27.7	Fb My Ag Nv	2109
1,630.4	Chem. Banking Corpn.	18½	$2.72	8.6	6.6	Ap Jy Oc Ja	–
3,300.3	Chrysler $6¼	14	$1.00	3.9	12.9	Mar Jun S D	2135
4,630.8	Citicorp $1	14	$1.48	6.0	26.7	My Au N F	2141
3.70	CityFed Fin. Corp.	180p	4c	1.3	29.10	Fb My Ag Nv	–
1,936.4	Colgate-Palmolive $1	28	$1.48	3.1	19.10	F My Au N	2184
721.1	Cons Freightways 62½c	19½	98c	3.0	3.11	Fe My Au Nv	–
191.9	Contl Illinois Corp $1	327p	8c	1.4	14.9	Dc Mr. Jn Sp.	–
17.7	Cont. Illinois Hldgs $1	7¼p	–	–	–	Mr Je Se De	–
–	♦Corporate Data Sciences	485p	–	–	–	–	–

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
6,3[illegible]	Time Inc. $1	66½xd	$1.00	0.9	25.8	Mr Je Se Dc	4234
1,5[illegible]	Transamerica $1	19⅞xd	$1.84	5.4	30.9	Ja Ap Ju Oc	4289
525.4	TRINOVA Corp	15⅝xd	64c	2.4	10.8	Mc Je Se Dc	4309
4,8[illegible]	USX $1	16⅛	$1.20	4.4	2.8	Mr Je Se Dc	4380
3,2[illegible]	Utd. Technologies	23⅝xd	$1.60	3.9	24.8	Mr Je Sp Dc	4381
6,587	US West	32⅞	$3.52	6.3	13.4	[illegible]	–
5,4[illegible]	Waste Management $1	24	48c	1.2	16.9	Ap Jy Oc Ja	4439
1,036	Whirlpool $1	15	$1.10	4.3	25/11	Mr Ja Se Dc	–
2,325	Woolworth $3½	32¼	$1.64	3.0	19/11	Mr Je Se Dc	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	ABM Gold Corp	172p	–	–	–	–	–
–	Abitibi Energy Corp.	14¼p	–	–	–	–	–
576.0	Amer. Barrick Res.	10	–	–	–	–	–
–	American Lightwave	2½p	–	–	–	–	–
–	Armeco	7½p	–	–	–	–	–
–	Augmitto Explo.	52p	–	–	–	–	–
1,4[illegible]	Bk. Montreal	13⅝	$2.00	7.1	8.8	Fb My Ag Nv	–
1,2[illegible]	Bk. Nova Scot.	734p	76c	5.0	28.9	Ja Ap Jy Oc	–
4,9[illegible]	BCE	18½xd	$2.44	6.4	6.6	Ap Jy Oc Ja	–
261.3	Bow Valley	631p	40c	3.1	15.12	May Nov.	–
865.6	Brascan	12⅛	88c	3.4	22.10	Ja Ap Jy Oc	–
46.6	Breakwater Res.	288p	10c	2.3	–	–	–
1,3[illegible]	Can. Imp. Bank	11⅞	$1.16	4.8	29.6	Fe My Ag Nv	–
[illegible]	Can. Pacific	10⅛	76c	3.6	28.9	July Jan.	–

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS—Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

[illegible]

LONDON SHARE SERVICE

LEISURE—Contd

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Contd

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

Stock		Price	Net	Cvr	Gr's	P/E	Dividends Paid	City Line
2.48 Rantamister 5p	y	41	u1.0	2.2	–		–	5228
9.65 Royal Sovereign 10p	y	218	↑4.6	2.8	3.10	May Nov		1505
1.57 Scott Pickford 10p	y	22½		3.1	18.4	–	–	5062
7.01 Seacon Hldgs	y	101	Z1.0	1.3	19.9	–	–	3968
1.25 Sonic Tape 2½p	y	10	n–	–	–	–	–	–
5.80 Stats Hldgs. 5p	y	21	–	–	–	–	–	4625
4.63 Swanyard Studios 1p	y	3½	–	–	–	–	–	4666
26.9 Takare	y	300	b1.0	8.4	–	–	–	4647
14.9 Theme Holdings		64	♦1.1	2.2	25.4	June Dec		4206
3.14 Tomorrows Leisure 20p	y	28	–	–	–	–	–	4248
12.5 Tullow Oil 10p	y	28	–	–	–	–	–	4886
4.51 UPL Group 10p	y	112	L2.41	2.9	23.5	–	–	4362
6.21 Unit Group	y	153	5.0	4.4	4.7	Jan July		4357
7.60 Video Tape Rec 5p	y	110	L2.3	2.8	9.5	–	–	4591
0.92 Wilton Group	y	6m	–	–	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ● USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- L No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock		Price	+ or –
Albany Inv 20p	y	71	......
Craig & Rose £1	y	700	+10
Finlay Pkg. 5p	y	86	+1
Holt (Jos) 25p	y	£11½	......
Arnotts	y	395	......
Carrol Inds	y	165	......
Grafton Grp	y	140	......
Hall (R. & H.)		158	+3
Heiton Hldgs	y	68	–1
Irish Ropes	y	165	......

IRISH

Stock	Price	+ or –
Cap. 8½% Ln. 1991	£99½	......
9pc Cap Ln. 1996	£185¾	......
Fin. 13% 97/02	£123¼	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	35
Amstrad	16
BAT	36
BOC Grp	36
BSR	8
BTR	22
Barclays	35
Beecham	42
Blue Circle	38
Boots	19
Bowaters	35
Brit Aerospace	35
Brit. Telecom	22
Burton Ord	21
Cadburys	32
Charter Cons	38
Comm Union	34
Courtaulds	34
FKI Babcock	12
FNFC	23
Gen Accident	85
GEC	13
Glaxo	85
Grand Met	45
GUS 'A'	95
Guardian	85
GKN	28
Hanson	12
Hawker Sidd	48
ICI	72
Jaguar	26
Ladbroke	38
Legal & Gen	25
Lex Service	33
Lloyds Bank	26
Lucas Inds	50
Marks & Spencer	17
Midland Bk	37
Morgan Grenfell	30
NEI	10
Nat West Bk	52
P & O Dfd	52
Plessey	16
Polly Peck	38
Racal Elect	32
RHM	30
Rank Org Ord	64
Reed Intnl	36
STC	24
Sears	11
TI	28
TSB	9
Tesco	14
Thorn EMI	60
Trust Houses	21
T&N	17
Unilever	42
Vickers	14
Wellcome	45

Property

Brit Land	38
Land Securities	52
MEPC	52
Peachey	58

Oils

Brit. Gas	15
Brit Petroleum	24
Burmah Oil	50
Charterhall	3
LASMO	40
Premier	7½
Shell	95
Ultramar	26

Mines

Cons Gold	95
Lonrho	28
RTZ	35

A selection of Options traded is given on the London Stock Exchange Report Page

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

A time of uncertainty for sterling

by Jonas Crosland

STERLING SENTIMENT has, predictably, been coloured by reaction to the Mansion House speech by Mr Nigel Lawson, the UK Chancellor, last week.The pound's immediate direction is far from clear, because despite the Chancellor's earlier calls for patience - allowing time for the current tight monetary policy to feed through to the economy - currency markets are inclined to take the short-term view.

Consequently, the start of trading this morning is likely to see investors taking a cautious approach, especially in the light of Friday's sharp fall. Many dealers expressed surprise at the size of the pound's decline,a move which underlined the folly of regarding sterling as a one-way bet.

The shake-out in sterling had its basis not in what the Chancellor said in his Mansion House speech, but in what he left out; leaving the market to make up its own mind, and to draw its own conclusions about precise government intentions, is rarely a recipe for stable trading conditions. The fickle nature of the market adds its own contradiction :high interest rates will continue to underpine sterling, as long as the pound stays firm.

Sterling's position takes on a greater mood of uncertainty as the market prepares itself for the release on Thursday of UK trade figures for September. Recent economic data, which includes M0 money supply and retail sales, have been distorted by the effects of the postal strike last month, and there is concern that the current account data could suffer in the same way.

While the bulk of imports are registered electronically, about one third of export returns reach the Department of Trade through the mail.Forecasters suggest that this could limit the improvement over a £1.31bn current account deficit in August, and Nomura Research Institute is actually looking for a £1.3bn shortfall. Together with the Chancellor's own warning that the current account is unlikely to improve significantly before 1990, this clearly outlines the risks facing sterling.

One aspect of Government policy in the Chancellor's speech, which brought something of a smile from most traders, was the emphasis placed on the healthy state of public sector finances. The strength of the economy and,consequently,the buoyant tax revenues have placed the authorities in the novel position of being able to reduce public sector debt. Mr Lawson stressed that the impact of this surplus in funds will be fully neutralised, which means that instead of issuing gilt edged stock, the Bank of England will buy it back.

With the issuance of further paper in the immediate future much less likely, a number of interesting possibilities arise.

L-Alexanders Laing & Cruikshank, a London discount house, points out: The stock of *deliverable gilts to service the* Liffe long gilt futures contract has declined by 35 p.c. in the last year. In the absence of any further issues, the number of deliverable gilts will be reduced to just five over the next two years.

Potentially, all this augurs well for the Liffe medium gilt future, which since its launch in January has suffered a steady decline in trading volume.

While the pound hesitates in currency markets, the dollar continues to lose confidence. Only the possibility of central bank intervention has restricted the fall.

£ IN NEW YORK

Oct.21	Close	Previous Close
£ Spot	1.7600-1.7610	1.7630-1.7640
1 month	0.55-0.54pm	0.55-0.54pm
3 months	1.49-1.47pm	1.45-1.43pm
12 months	4.55-4.47pm	4.33-4.25pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Oct.21	Previous
8.30 am	[illegible]	76.8
9.00 am	[illegible]	76.8
10.00 am	[illegible]	76.8
11.00 am	[illegible]	76.8
Noon	[illegible]	76.9
1.00 pm	[illegible]	76.9
2.00 pm	[illegible]	76.8
3.00 pm	[illegible]	76.8
4.00 pm	[illegible]	76.9

CURRENCY RATES

Oct.21	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]
Canadian $	[illegible]	[illegible]	[illegible]
Austrian Sch.	[illegible]	[illegible]	[illegible]
Belgian Franc	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]
Deutsche Mark	[illegible]	[illegible]	[illegible]
Neth. Guilder	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]
Norway Krone	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]
Swedish Krona	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]
Greek Drach.	[illegible]	[illegible]	[illegible]
Irish Punt	[illegible]	[illegible]	[illegible]

*All SDR rates are for Oct.20

CURRENCY MOVEMENTS

Oct.21	Bank of England Index	Morgan Guaranty Changes %
Sterling	76.4	-15.5
U.S. Dollar	[illegible]	-12.0
Canadian Dollar	[illegible]	-1.7
Austrian Schilling	[illegible]	+10.1
Belgian Franc	[illegible]	-5.8
Danish Kroner	[illegible]	-9.2
Deutsche Mark	[illegible]	+21.4
Swiss Franc	[illegible]	+19.6
Guilder	[illegible]	+13.7
French Franc	[illegible]	-15.3
Lira	[illegible]	-28.8
Yen	[illegible]	+83.8

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100) *Rates are for Oct.20

OTHER CURRENCIES

Oct.21	£	$
Argentina	[illegible]	[illegible]
Australia	[illegible]	[illegible]
Brazil	[illegible]	[illegible]
Finland	[illegible]	[illegible]
Greece	[illegible]	[illegible]
Hong Kong	[illegible]	[illegible]
Iran	[illegible]	[illegible]
Korea(Sth)	[illegible]	[illegible]
Kuwait	[illegible]	[illegible]
Luxembourg	[illegible]	[illegible]
Malaysia	[illegible]	[illegible]
Mexico	[illegible]	[illegible]
N. Zealand	[illegible]	[illegible]
Saudi Ar.	[illegible]	[illegible]
Singapore	[illegible]	[illegible]
S. Af (Cm)	[illegible]	[illegible]
S. Af (Fn)	[illegible]	[illegible]
Taiwan	[illegible]	[illegible]
U.A.E.	[illegible]	[illegible]

*Selling rate

EURO-CURRENCY INTEREST RATES

Oct. 21	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	12-11¾	12-11¾	12-11¾	12⅛-12	12-11⅞	11⅞-11⅝
US Dollar	8¼-8⅛	8⅛-8⅞	8¼-8⅛	8⅜-8¼	8⅝-8½	8⅞-8¾
Can. Dollar	10⅛-9¾	10⅛-10	10⅛-9¾	10⅜-10⅛	10⅜-10⅛	10⅜-10⅛
D. Guilder	4⅞-4⅝	5¼-5⅛	5⅜-5¼	5⅝-5⅛	5⅜-5¼	5⅝-5½
Sw. Franc	3½-3¼	3½-3⅜	3⅝-3⅜	3⅞-3⅝	3⅞-3¾	3⅞-3⅞
Deutschmark	4⅝-4⅜	4⅝-4⅜	4⅝-4⅜	5⅛-4⅞	5⅛-4⅞	5⅜-5⅛
Fr. Franc	7⅜-7⅛	7⅞-7⅝	8⅛-7⅞	8⅜-8⅛	8⅜-8⅛	8⅝-8⅜
Italian Lire	12-10	11½-10½	11¾-10¾	11½-11	11⅞-11⅜	11⅞-11⅜
B. Fr. (Fin)	7⅜-7⅛	7⅜-7⅛	7⅜-7⅛	7⅜-7⅛	7⅜-7⅛	7⅝-7⅜
B. Fr. (Con.)	7½-7¼	7½-7¼	7½-7¼	7½-7¼	7½-7¼	7⅝-7⅜
Yen	4⅛-4	4⅜-4⅛	4⅛-4⅛	4⅜-4⅛	4⅝-4⅜	4⅝-4⅜
D. Krone	7¾-7½	8-7¾	8-7¾	8⅛-8	8⅜-8⅛	8⅝-8⅜
Asian $Sing	8⅛-8¼	8⅛-8¼	8⅛-8⅛	8⅝-8⅜	8⅞-8⅝	8⅞-8⅝

Long term Eurodollars: two years 9⅛-8⅞ per cent; three years 9¼-9 per cent; four years 9⅜-9⅛ per cent; five years 9½-9¼ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Oct. 21	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.763	3.138	222.8	10.730	2.658	3.543	2340.	2.119	65.88
$	0.567	1	1.780	126.4	6.086	1.508	2.010	1327	1.202	37.32
DM	0.319	0.562	1	71.00	3.419	0.847	1.129	745.7	0.675	20.97
YEN	4.488	7.913	14.08	1000.	48.16	11.93	15.90	10503	9.521	295.3
F Fr.	0.932	1.643	2.925	207.6	10.	2.477	3.302	2181	1.975	61.32
S Fr.	0.376	0.663	1.181	83.82	4.037	1	1.333	880.4	0.797	24.76
H Fl.	0.282	0.498	0.886	62.88	3.029	0.750	1	660.5	0.598	18.57
Lira	0.427	0.753	1.341	95.21	4.585	1.136	1.514	1000.	0.906	28.12
C $	0.472	0.832	1.481	105.1	5.064	1.254	1.672	1104	1	31.05
B Fr.	1.520	2.679	4.769	338.6	16.31	4.040	5.384	3556	3.220	100

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr per 100.

POUND SPOT- FORWARD AGAINST THE POUND

Oct. 21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7550-1.7660	1.7620-1.7630	0.55-0.52cpm	3.64	1.48-1.43pm	3.30
Canada	2.1065-2.1200	2.1190-2.1200	0.35-0.25cpm	1.70	0.93-0.75pm	1.57
Netherlands	3.54¼-3.55¼	3.53¾-3.54¾	2-1⅞cpm	6.56	5⅞-5⅝pm	6.49
Belgium	65.85-66.25	65.85-65.95	31-21cpm	4.74	82-71pm	4.65
Denmark	12.12¼-12.15½	12.13½-12.14½	4⅞-3⅜orepm	4.26	13¾-10¼pm	3.69
Ireland	1.1765-1.1835	1.1775-1.1785	0.47-0.41cpm	2.49	1.35-1.23pm	2.43
W. Germany	3.13½-3.15	3.13½-3.14	2-1⅞pfpm	7.17	5⅞-5¾pm	7.61
Portugal	259.50-261.20	260.15-261.20	12pm-20dis	-0.92	38-134dis	-1.32
Spain	206.70-207.60	207.15-207.60	24-10cpm	0.98	17pm-3dis	0.18
Italy	2342½-2347	2339½-2340½	3-1lirepm	1.03	5-3pm	0.68
Norway	11.66¼-11.69¾	11.67¼-11.68¼	¼-1oredis	-0.58	1½-2¼dis	-0.73
France	10.72-10.77	10.72-10.73	3½-3⅛cpm	3.99	10-9¼pm	3.61
Sweden	10.88-10.91	10.90-10.91	1¾-1orepm	1.51	4⅜-3⅞pm	1.44
Japan	222¼-223¼*	222¼-223¼	1¾-1⅝ypm	7.74	4⅞-4⅝pm	7.41
Austria	22.10-22.20	22.15-22.20	13-12gropm	6.76	35¾-32¼pm	6.10
Switzerland	2.65¾-2.66½	2.65¾-2.66¾	2-1⅞cpm	8.47	5⅞-5⅝pm	8.20

Belgian rate is convertible francs. Financial franc 66.55-66.65. Six-month forward dollar 2.73-2.68cpm 12 month 4.50-4.40cpm * Correction For Oct. 20 Japan Day's Spread 223¼-224¼

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Oct. 21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7550-1.7660	1.7620-1.7630	0.55-0.52cpm	3.64	1.48-1.43pm	3.30
Ireland†	1.4875-1.4935	1.4920-1.4930	0.11-0.16cdis	-1.09	0.40-0.50dis	-1.21
Canada	1.1990-1.2025	1.2010-1.2020	0.18-0.21cdis	-1.95	0.50-0.55dis	-1.75
Netherlands	2.0080-2.0218	2.0095-2.0105	0.52-0.50cpm	3.03	1.65-1.61pm	3.23
Belgium	37.35-37.55	37.35-37.45	4.50-2.50cpm	1.12	14.50-11.50pm	1.39
Denmark	6.88-6.91½	6.88½-6.89	0.55-0.15orepm	0.61	0.85-0.45pm	0.38
W. Germany	1.7800-1.7935	1.7800-1.7810	0.56-0.53pfpm	3.65	1.66-1.62pm	3.68
Portugal	147½-148¼	147½-147¾	35-75cdis	-4.45	140-215dis	-4.79
Spain	117.00-118.10	117.70-117.80	25-35cdis	-3.05	90-100dis	-3.22
Italy	1327½-1335½	1327¼-1328¼	2.70-3.20liredis	-2.65	8.50-9.20dis	-2.65
Norway	6.62¼-6.65	6.62½-6.63	2.15-2.50oredis	-4.20	6.55-6.95dis	-4.06
France	6.08-6.12½	6.08¼-6.08¾	0.18-0.11cpm	0.28	0.50-0.32pm	0.27
Sweden	6.17-6.20¾	6.18¾-6.19	1.00-1.25oredis	-2.18	2.75-3.05dis	-1.87
Japan	126.30-126.75	126.30-126.40	0.45-0.42ypm	4.12	1.32-1.29pm	4.12
Austria	12.56¼-12.59¾	12.56¼-12.56¾	4.00-2.00gropm	2.86	10.00-8.00pm	2.86
Switzerland	1.5050-1.5160	1.5070-1.5080	0.65-0.61cpm	4.99	1.85-1.80pm	4.82

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.75-37.85.

MONEY MARKETS

Storm clouds gather over the EMS

THE CONTINUED decline in the value of the French franc is clearly becoming something of a worry to investors and the French authorities alike. The mood of the market suggests,however,that talk of a *realignment of Ecu parities may* be a little premature.

A quarter point increase last week in the four-week sale and repurchase rate to 7.25 p.c., may well mark the start of a progressive increase in French interest rates.

In relation to supportive means at its disposal, the Bank *of France has so far elected to* play a tight hand.Regular assumptions that the authorities would defend the FFr3.4100 level against the D-Mark have been proved wrong, and the same applied to FFr3.4150. But with the D-Mark now knocking on the door at FFr3.42, the Bank is running out of levels to defend.

However,previous bouts of pressure on the franc have shown that the authorities are not averse to pushing interest *rates to an extremely high* level, in order to stave off a speculative run on the franc.

Nevertheless,supportive measures appear to be a little thin on the ground. September trade figures are due for release on Thursday, and most analysts are looking for some pick-up from a disappointing *FFr9bn shortfall in August.*

Elsewhere, a recovery by the dollar would certainly help to ease the pressure, but on this point, most traders remain pessimistic with the US unit touching a four-month low against the D-Mark on Friday. A stronger dollar would help to depress the D-Mark, since *funds tend to move in and out* of the D-Mark to a greater extent than with other EMS currencies.

UK clearing bank base lending rate 12 per cent from August 25 & 26

MONEY RATES

NEW YORK (4pm)

Prime rate	10
Broker loan rate	9⅞-½
Fed funds	8⅛-⅛
Fed. funds at intervention	8⅛

Treasury Bills and Bonds

One month	6.52	Three year	8.45
Two month	7.31	Four year	8.50
Three month	7.69	Five year	8.56
Six month	7.98	Seven year	8.70
One year	8.16	10-year	8.82
Two year	8.39	30-year	8.86

Oct. 21	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.80-4.90	4.75-4.90	4.75-4.90	4.90-5.05	5.00-5.15	5.00
Paris	7¼-7⅜	7⅞-7⅞	7⅞-8⅛	8-8⅛	8⅛-8⅛	7.25
Zurich	1⅝-1⅞	3⅛-3⅜	-	3⅜-3⅞	-	-
Amsterdam	5.18-5.31	5.25-5.38	-	5.25-5.38	-	-
Tokyo	3.84375	4.21875	-	4.34375	-	-
Milan	10⅛-10⅞	11-11½	-	11⅜-11⅞	-	-
Brussels	5.35	7⅜-7⅞	-	7⅛-7⅜	-	-
Dublin	7½-7⅝	7⅝-7⅞	7⅝-7⅞	7⅝-7⅞	7½-7⅝	-

LONDON MONEY RATES

Oct.21	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	12½	12⅛	12⅛	12⅛	12⅛	11⅞
Interbank Bid	10	12	11⅞	11⅞	11⅞	11¾
Sterling CDs	-	-	12	12	11⅞	11¾
Local Authority Deps.	12⅛	12⅛	12⅛	12⅛	12	11⅞
Local Authority Bonds	-	-	12⅛	12⅛	12⅛	12⅛
Discount Mkt Deps.	12⅛	12⅛	11⅝	11⅞	11⅞	-
Company Deposits	-	-	11⅞	11⅞	11⅞	11⅝
Finance House Deposits	-	-	11⅞	12	11⅞	11⅝
Treasury Bills (Buy)	-	-	11⅞	11⅝	-	-
Bank Bills (Buy)	-	-	11⅞	11⅞	11⅞	-
Fine Trade Bills (Buy)	-	-	12⅛	12⅛	11⅞	-
Dollar CDs	-	-	8.25-8.20	8.50-8.45	8.55-8.50	8.75-8.70
SDR Linked Dep Offer	-	-	7⅛	7⅜	7⅜	7½
SDR Linked Dep Bid	-	-	7	7⅛	7⅜	7⅜
ECU Linked Dep Offer	-	-	7⅞	7⅝	7⅝	7⅞
ECU Linked Dep Bid	-	-	7⅛	7½	7½	7⅝

Treasury Bills (sell): one-month 11⅝ per cent; three months 11½ per cent; Bank Bills (sell): *one-month 11⅞ per cent; three months 11⅞ per cent; Treasury Bills; Average tender rate of* discount 11.5483 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day Sept.30, 1988. Agreed rates for period October.26,1988 to November 25 , 1988, Scheme I: 13.12 p.c., Schemes II & III: 13.41 p.c. Reference rate for period Sept.1,1988 to Sept.30 , 1988, Scheme IV&V: 12.234 p.c. Local Authority and Finance Houses seven days' notice; others seven days' fixed. Finance Houses Base Rate 12 from October 1 , 1988: Bank Deposit Rates for sums at seven days notice 3.75 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 7½ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 9½ per cent; nine-twelve months 9½ per cent; Under £100,000 7 per cent from July.5,1988 , Deposits withdrawn for cash 5 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct.21) 3 months US dollars		6 months US Dollars	
bid 8⅜	offer 8½	bid 8⅝	offer 8¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Oct.21	Oct.14		Oct.21	Oct.14
Bills on offer	£400m	£400m	Top accepted rate of discount	11.5919%	11.5717%
Total of applications	[illegible]	[illegible]	Average rate of discount	11.5483%	[illegible]
Total allocated	£400m	£400m	Average yield	11.9175%	11.8927%
Minimum accepted bid	£97.110	£97.115	Amount on offer at next tender	£400m	£400m
Allotment at minimum level	22%	37%	[illegible]		

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	Oct.21	change	NEW YORK	Oct.21	change
Base rates	12	Unch'd	Prime rates	10	Unch'd
7 day Interbank	12	+⅛	Federal Funds	8⅛	-⅛
3 Month Interbank	12⅛	[illegible]	3 Mth. Treasury Bills	7.69	+0.11
Treasury Bill Tender	11.5774	+0.0233	6 Mth. Treasury Bills	7.98	+0.22
Band 1 Bills	11⅞	Unch'd	3 Mth. CD	8.475	Unch'd
Band 2 Bills	11⅞	Unch'd	FRANKFURT		
Band 3 Bills	[illegible]	Unch'd	Lombard	5.00	Unch'd
Band 4 Bills	[illegible]	[illegible]	One mth. Interbank	4.825	-0.05
3 Mth. Treasury Bill	[illegible]	[illegible]	Three month	4.975	-0.05
1 Mth. Bank Bills	[illegible]	[illegible]	PARIS		
3 Mth. Bank Bills	[illegible]	[illegible]	Intervention Rate	7¼	+0.25
TOKYO			One mth. Interbank	7⅝	[illegible]
One month Bills	4.21875	-0.0625	Three month	8	[illegible]
Three month Bills	4.34375	-0.0625	MILAN		
BRUSSELS			One month	11¼	Unch'd
One month	7⅝	[illegible]	Three month	[illegible]	Unch'd
Three month	7½	Unch'd	DUBLIN		
AMSTERDAM			One month	7⅝	Unch'd
One month	5.3125	+0.0125	Three month	7⅝	[illegible]
Three month	5.3125	-0.0075			

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY OCTOBER 21 1988 US Dollar Index	% Change Since Dec.31 87	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY OCTOBER 20 1988 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1988 High	1988 Low	Year ago (approx)
Australia (91)	149.46	+42.7	125.73	121.53	4.09	149.70	125.89	121.07	152.91	91.16	114.79
Austria (17)	95.32	-5.4	80.18	88.44	2.43	94.35	79.34	88.18	98.18	83.72	[illegible]
Belgium (63)	128.46	+24.5	108.06	113.75	4.22	127.23	106.99	119.70	139.89	99.14	111.97
Canada (125)	125.61	+13.7	105.66	109.28	3.10	125.42	105.47	108.85	128.91	107.86	[illegible]
Denmark (39)	143.57	+24.3	120.77	134.49	2.24	141.37	118.88	133.58	143.57	111.42	[illegible]
Finland (26)	123.90	+7.7	104.22	110.30	1.51	121.63	102.28	108.74	139.53	106.78	[illegible]
France (130)	105.75	+22.8	88.96	100.94	3.22	103.89	87.37	100.31	105.75	72.77	[illegible]
West Germany (102)	85.96	+11.2	72.31	79.57	2.33	84.40	70.98	79.09	85.96	67.78	[illegible]
Hong Kong (46)	105.69	+18.7	88.90	106.00	4.77	105.76	88.94	106.08	111.86	84.90	[illegible]
Ireland (18)	142.33	+35.9	119.73	134.38	3.75	141.65	119.12	134.17	144.29	104.58	[illegible]
Italy (100)	84.35	+8.5	70.96	83.64	2.60	83.82	70.48	84.00	84.35	62.99	[illegible]
Japan (456)	169.75	+20.1	142.79	135.57	0.54	168.45	141.66	135.44	177.27	133.61	[illegible]
Malaysia (36)	139.44	+24.9	117.29	143.49	2.97	136.93	115.15	140.91	154.17	107.83	[illegible]
Mexico (13)	156.48	+88.4	131.63	391.23	1.39	156.45	131.57	391.20	180.07	90.07	[illegible]
Netherland (38)	109.31	+7.4	91.95	100.28	4.91	108.31	91.08	100.47	110.66	85.23	[illegible]
New Zealand (26)	73.52	-23.5	61.85	62.73	6.26	72.24	60.75	62.11	93.85	64.42	[illegible]
Norway (25)	119.03	+37.0	100.13	107.07	2.71	118.21	99.41	106.89	132.23	98.55	[illegible]
Singapore (26)	121.67	+25.0	102.35	112.59	2.42	120.20	101.08	111.28	135.89	97.99	[illegible]
South Africa (60)	111.56	-36.5	93.84	97.55	4.40	110.71	93.10	96.77	139.07	98.28	[illegible]
Spain (42)	149.56	+32.8	125.81	133.42	3.00	147.53	124.07	132.56	164.47	130.73	[illegible]
Sweden (35)	129.49	+30.7	108.93	118.61	2.41	128.16	107.78	117.92	129.49	96.92	[illegible]
Switzerland (56)	83.83	+0.4	70.52	78.35	2.15	82.45	69.34	77.93	85.73	74.13	[illegible]
United Kingdom (321)	137.21	+23.5	115.42	115.42	4.56	137.45	115.59	115.59	141.18	120.66	[illegible]
USA (581)	115.59	+14.9	97.20	115.55	3.46	115.30	96.96	115.30	115.55	99.19	[illegible]
Europe (1012)	113.48	+8.6	95.46	101.16	3.66	112.69	94.77	101.03	113.48	97.01	[illegible]
Pacific Basin (681)	166.34	+33.5	139.92	133.70	0.77	165.13	138.87	133.55	172.26	130.81	[illegible]
Euro-Pacific (1693)	145.23	+43.7	122.16	120.60	1.48	144.19	121.25	120.46	147.53	115.38	[illegible]
North America (706)	116.07	+35.2	97.64	115.18	3.44	115.83	97.41	114.92	116.07	99.78	[illegible]
Europe Ex. UK (691)	98.59	+2.4	82.94	92.45	2.94	97.21	81.75	92.12	98.59	80.27	[illegible]
Pacific Ex. Japan (225)	125.29	+0.9	105.39	110.27	4.29	125.15	105.25	109.87	128.27	[illegible]	[illegible]
World Ex. US (1991)	144.22	+27.3	121.32	120.11	1.74	143.22	120.44	119.78	146.49	[illegible]	[illegible]
World Ex. UK (2151)	132.70	+15.5	111.63	118.81	2.07	131.89	110.91	118.60	132.70	113.77	[illegible]
World Ex. So. Af. (2412)	133.22	+30.1	112.06	118.62	2.29	132.50	111.43	118.44	133.22	[illegible]	[illegible]
World Ex. Japan (2016)	115.54	+4.4	97.19	110.08	3.56	115.10	96.80	109.87	115.54	100.00	[illegible]
The World Index (2472)	133.09	+15.7	111.95	118.48	2.30	132.37	111.32	118.31	133.09	113.37	113.26

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local). Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Limited. 1987
CONSTITUENT CHANGES: Deletions: Polysar Energy and Chemical Corp (Canada), TR Ind. and General Trust (UK) and First Republicbank Corp (USA). Name change: Helvetia-Unfall to Elvia (Switzerland).

EUROPEAN OPTIONS EXCHANGE

Series		Nov. 88 Vol	Last	Feb. 89 Vol	Last	May 89 Vol	Last	Stock
GOLD C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GOLD P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index C / P (series)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DBL Index C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$/Fl C / P (series)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ABN C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ABN P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AEGON C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AHOLD C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AKZO C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AKZO P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AMEV C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AMRO C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AMRO P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BUHRMANN-T C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELSEVIER C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GIST-BROC C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GIST-BROC P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HEINEKEN C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HEINEKEN P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
HOOGOVENS C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KLM C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KLM P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KNP C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
KNP P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEDLLOYD C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEDLLOYD P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NAT.NED. C	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NAT.NED. P	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PHILIPS C	Fl.30	2892	0.30	208	2	219	2.90	Fl.30.20
PHILIPS P	Fl.30	2182	0.10	85	2	271	3.10	Fl.30.20
ROYAL DUTCH C	Fl.230	3869	0.30	939	8.70	129	13.80	Fl.229
ROYAL DUTCH P	Fl.230	1897	1.20	1061	7.70	149	9.80	Fl.229
ROBECO C	Fl.95	334	0.10	22	2.50	-	-	Fl.94.70
ROBECO P	Fl.95	308	0.50	-	-	-	-	Fl.94.70
UNILEVER C	Fl.110	2395	6.10	306	9.20 B	12	13	Fl.116.40
UNILEVER P	Fl.110	3	0.10	975	2.70	10	4.80	Fl.116.40
VAN OMMEREN C	Fl.30	89	1.30	62	3.20 A	45	4	Fl.31.30
WESSANEN C	Fl.80	440	0.40	51	3.80	2	5.80	Fl.79.70

TOTAL VOLUME IN CONTRACTS : 93,766

A=Ask B=Bid C=Call P=Put

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price £	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] Figures based on prospectus estimates. ... Dividend and yield based on prospectus or other official estimates for 1988. ... annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". ‡ Introduction. ¶ Placing price. ‡‡ Reintroduction. ‡ Issued in connection with reorganisation merger or takeover. ‖ Allotment price. ‡ Unlisted securities market. ‡ Official London listing. □ Including warrants unitised. * Third Market.

BASE LENDING RATES

	%		%		%
ABN Bank	12	City Merchants Bank	12	Nat Westminster	12
Adam & Company	12	Clydesdale Bank	12	Northern Bank Ltd	12
AAB - Allied Arab Bk	12	Comm. Bk N.East	12	Norwich Gen. Trust	12
Allied Irish Bank	12	Co-operative Bank	*12	PRIVATbanken Limited	12
● Henry Ansbacher	12	Coutts & Co	12	Provincial Bank PLC	13
ANZ Banking Group	12	Cyprus Popular Bk	12	R. Raphael & Sons	12
Associates Cap Corp	12	Dunbar Bank PLC	12	Roxburghe G'antee	12½
Authority Bank	12	Duncan Lawrie	12	Royal Bk of Scotland	12
● B & C Merchant Bank	12	Equatorial Bank plc	12	Royal Trust Bank	12
Bank of Baroda	12	Exeter Trust Ltd	12½	● Smith & Williamson Secs.	12
Banco Bilbao Vizcaya	12	Financial & Gen. Bank	12	Standard Chartered	12
Bank Hapoalim	12	First National Bank Plc	13	TSB	12
Bank Leumi (UK)	12	● Robert Fleming & Co.	12	UDT Mortgage Exp	‡12.75
Bank Credit & Comm	12	Robert Fraser & Ptnrs.	12½	United Bk of Kuwait	12
Bank of Cyprus	12	Girobank	12	United Mizrahi Bank	12
Bank of Ireland	12	● Guinness Mahon	12	Unity Trust Bank Plc	12
Bank of India	12	HFC Bank plc	12	Western Trust	12
Bank of Scotland	12	● Hambros Bank	12	Westpac Bank Corp	12
Banque Belge Ltd	12	Heritable & Gen Inv Bank	12	Whiteaway Laidlaw	12½
Barclays Bank	12	● Hill Samuel	§12	Yorkshire Bank	12
Benchmark Bank PLC	12	C. Hoare & Co.	12		
Berliner Bank AG	12	Hongkong & Shangh	12		
Brit Bk of Mid East	12	● Leopold Joseph & Sons	12		
● Brown Shipley	12	Lloyds Bank	12		
Business Mtge Tst	12½	McDonnell Douglas Bnk	12.25		
CL Bank Nederland	12	Meghraj Bank Ltd	12		
Central Capital	12	Midland Bank	12		
● Charterhouse Bank	12	Mount Bnkg Corp	12		
Citibank NA	12	Nat Bk. of Kuwait	12		

● Members of British Merchant Banking & Securities Houses Association. * 7 day deposits 5.22% Sureshire 8.47%. Top Tier-£10,000 + instant access 11.06% ‡ Mortgage base rate. § Demand deposit 7%. Mortgage 12.375% - 12.75%

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · GERMANY · ITALY · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · SOUTH AFRICA · JAPAN · AUSTRALIA · HONG KONG · SINGAPORE

[illegible]

CANADA

TORONTO
Closing prices October 21

[illegible]

4700 Wajax A	$13	12	13	+2½
13060 Wrdair A f	$9⅞	9¼	9½	+ ⅛
8500 Wst Fraser	$18½	18⅛	18½	+ ⅜
7151 Wcoast E	$16¾	16⅝	16¾	+ ⅛
10727 Westmin	$9¾	9⅝	9¾	
1900 Weston	$35¼	34⅞	35	
57914 Woodwd A	435	430	430	

f—No voting rights or restricted voting rights.

MONTREAL
Closing prices October 21

22116 BombrdrA	$13⅛	13	13⅛	+ ⅛
135534 BombrdrB	$13⅛	13	13⅛	+ ⅛
12700 CS Pak	$19¾	19½	19¾	+ ¼
7950 Cascades	$05¾	05⅝	05¾	+ ⅛
5491 ConBath	$15½	15¼	15⅜	+ ⅛
6218 DomTxtA	$16½	15⅝	16½	+ ⅜
4600 MntTrst	$17⅜	17¼	17¼	− ¼
87427 NatBk Cda	$12⅛	11⅞	12	
10108 Noverco	$11⅝	11½	11½	
37320 Power Corp	$13⅝	13⅜	13½	+ ⅛
11052 Provigo	$11¾	11⅝	11¾	
72828 Royal Bank	$35⅝	35¼	35½	+ ¼
7002 SteinbrgA	$36	35½	36	+2½
36075 Videotron	$13¼	12	13	+1

Total Sales 5,520,614 shares.

INDICES

NEW YORK — DOW JONES

	Oct 21	Oct 20	Oct 19	Oct 18	1988 High	1988 Low	Since compilation High	Since compilation Low
◆Industrials	2183.50	2181.19	2137.27	2159.7	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	90.03	89.93	89.96	90.0	91.25 (3/3)	86.12 (4/1)	–	–
Transport	937.35	935.01	918.91	929.0	937.35 (21/10)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	186.70	186.34	183.74	185.0	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

◆Day's High 2193.28 (2183.68) Low 2152.56 (2129.80)

STANDARD AND POOR'S	Oct 21	Oct 20	Oct 19	Oct 18	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	283.66	282.88	276.97	277.66	283.66 (21/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	326.84	326.07	318.81	321.44	326.84 (21/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	26.48	26.42	25.96	26.03	26.48 (21/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	159.42	159.01	156.18	156.48	159.42 (21/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	306.07	306.37	304.48	303.54	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	388.59	388.62	385.76	385.75	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Oct 14	Oct 7	Sep 30	year ago (approx.)
Dow Industrial Div. Yield	3.63	3.60	3.66	3.07
	Oct 19	**Oct 12**	**Oct 5**	**year ago (approx.)**
S & P Industrial div. yield	3.12	3.15	3.18	2.97
S & P P/E ratio	13.42	13.15	13.13	18.25

TRADING ACTIVITY

	Millions Oct 21	Oct 20	Oct 19
New York	[illegible]	[illegible]	[illegible]
Amex	[illegible]	[illegible]	[illegible]
OTC	[illegible]	[illegible]	[illegible]

NEW YORK	Oct 21	Oct 20	Oct 19
Issues Traded	[illegible]	[illegible]	[illegible]
Rises	[illegible]	[illegible]	[illegible]
Falls	[illegible]	[illegible]	[illegible]
Unchanged	[illegible]	[illegible]	[illegible]
New Highs	[illegible]	[illegible]	[illegible]
New Lows	[illegible]	[illegible]	[illegible]

CANADA

TORONTO	Oct 21	Oct 20	Oct 19	Oct 18	1988 High	1988 Low
Metals & Minerals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Composite	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MONTREAL Portfolio	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. (c) Closed. (u) Unavailable.

	Oct. 21	Oct. 20	Oct. 19	Oct. 18	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1595.3	1591.1	1579.4	1571.7	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	753.1	753.2	748.9	749.5	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	219.5	219.4	219.3	218.5	219.50 (21/10)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	5332.20	5327.10	5328.00	5328.60	5340.00 (11/10)	3608.33 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	238.43	238.15	237.36	238.43 (20/10)	180.68 (4/1)
FINLAND						
Unitas General (1975)	703.9	701.6	699.7	698.7	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	389.1	382.6	380.8	378.3	389.1 (21/10)	251.3 (29/1)
Ind. Tendance (31/12/87)	149.9	148.1	148.1	146.2	149.9 (21/10)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	534.31	530.59	538.27	534.69	538.27 (19/10)	396.40 (29/1)
Commerzbank (1/12/53)	1616.80	1606.50	1631.00	1619.80	1631.00 (19/10)	1207.9 (29/1)
DAX (30/12/87)	1289.72	1295.21	1304.37	1295.79	1304.37 (19/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2581.69	2584.04	(c)	2590.41	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	590.97	592.69	592.65	590.35	592.69 (20/10)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	27401.42	27390.55	27293.67	27141.98	28425.38 (5/8)	21217.04 (4/1)
Tokyo SE (Topix)(4/1/68)	2126.58	2123.99	2118.17	2108.66	2253.18 (2/8)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	281.0	280.1	282.0	279.7	284.8 (9/8)	205.7 (4/1)
ANP-CBS Industrial (1970)	247.4	247.9	248.4	247.0	248.4 (20/10)	157.9 (12/1)
NORWAY						
Oslo SE (4/1/83)	401.81	398.53	397.58	389.17	423.64	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1038.42	1022.35	1019.16	1016.09	1177.57 (8/8)	835.60 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1331.0	1352.0	1356.0	1337.0	1451.0 (2/7)	1154.0 (4/8)
JSE Industrial (28/9/78)	1804.0	1808.0	1814.0	1819.0	2083.0 (8/8)	1587.0 (2/2)
SPAIN						
Madrid SE (30/12/85)	287.52	284.20	283.66	285.63	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3194.12	3169.43	3158.60	3140.10	3200.30 (20/10)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	582.3	577.4	577.7	575.9	582.3 (21/10)	486.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	468.8	464.2	463.9	468.8 (20/10)	401.0 (2/1)

**Saturday Oct. 8: Japan Nikkei (c) and TSE (c).

$ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX—1,000 JSE Gold—255.7 JSE Industrials—264.3 and Australia, All Ordinary and Mining—500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday 21 October 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Kawasaki Steel	[illegible]	[illegible]	[illegible]	Nippon Yusen	[illegible]	[illegible]	[illegible]
Kobe Steel	[illegible]	[illegible]	[illegible]	Kawasaki Heavy	[illegible]	[illegible]	[illegible]
Nippon Steel	[illegible]	[illegible]	[illegible]	NKK	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sumitomo Metal	[illegible]	[illegible]	[illegible]	Marubeni	[illegible]	[illegible]	[illegible]

4pm prices October 21

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
27⅞	14	AAR	.44	1.7	18	402	25½	25⅛	25½	– ⅛
10⅛	9⅛	ACM n				58	9⅝	d 9½	9½	– ⅛
12⅛	8⅝	ACMIn 1.26a		11.		528	11⅜	11	11⅜	+ ⅛
12⅛	10⅞	ACMSc n1.26		12.		500	11	10⅞	10⅞	
10⅛	8⅝	ACMSp n1.01		11.		404	9⅛	9⅛	9⅛	– ⅛
7	2⅝	AMCA				6	4	4	4	+ ⅛
6⅞	3⅛	AM Intl				986	5⅝	5⅛	5⅝	– ⅛
25⅛	17	AM Int pf 2		8.9		130	22⅞	22⅛	22⅞	
51⅛	28⅞	AMR			8	4972	50⅛	49½	50	
24⅞	18	ANR pf 2.12		8.8		3	24	24	24	
9½	5⅝	ARX			11	129	7⅛	7⅛	7⅛	
70½	35⅝	ASA	3	7.8		297	39	38½	38½	– ½
22⅛	3½	AVX	.12e	.8	12	60	18⅝	18⅝	18⅝	– ⅛
52⅝	40	AbtLab 1.20		2.5	15	5597	48⅞	48	48½	– ⅛
25	15⅝	Abitibi g 1				34	16⅞	16⅛	16⅞	– ⅛
13⅞	8½	AcmeC .40		4.5		140	9	8⅞	8⅞	
9	6⅝	AcmeE .32b		4.7	48	19	6⅞	6⅞	6⅞	
29½	10⅛	Acton			27	650	25⅞	24⅞	25⅞	+ ⅝
17⅛	14⅛	AdaEx 3.05e		19		182	16⅞	16	16⅛	+ ⅛
19⅛	6⅞	AdamMl .24		1.3	17	243	18⅛	17	18	+ 1
16⅞	7½	AMD			17	2704	9⅞	9⅛	9⅛	
43½	23⅛	AMD pf 3		9.2		5	32⅝	32⅛	32⅝	+ ⅛
8½	4⅛	Adobe				59	7⅝	7½	7½	
18⅝	15⅛	Adob pf 1.84		10.		7	18	17⅞	17⅞	
8⅞	5⅞	Advest .12		1.7	13	53	7½	7⅛	7⅛	– ⅛
57⅛	39½	AetnLf 2.76		5.4	8	2759	51⅛	51⅛	51⅛	– ½
34⅛	20⅛	AflPb s .20		.7		239	29⅞	29⅞	29⅞	– ⅛
18⅝	13	Ahmans .88		5.1	10	998	17⅞	17⅛	17⅛	– ⅛
4⅞	1⅞	Aileen				14	4⅛	4	4⅛	
53⅞	29	AirPrd 1.20		2.8	11	4722	42⅛	41⅞	42⅛	– ⅛
23	11⅛	AirbFrt .60		3.3	24	206	18⅛	18	18⅛	+ ⅛

Continued on Page 45

ইfor 1/64

NYSE COMPOSITE PRICES

Continued from previous Page

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices October 20

OVER-THE-COUNTER

Nasdaq national market, 4pm prices October 20

The Business Column

The battle for some mental shelf-space

The last few weeks have reinforced one of the simple truths of business: there are few more certain ways of making profits than the effective exploitation of a monopoly. This is true whether the monopoly is perfect or imperfect; regulated or unregulated; government-created or the result of unremitting hard work.

British Gas's profits from its dominance of the market for industrial purchases of natural gas are the most spectacular recent example of this truth; so is the £1.7bn value set on Racal's three-year-old cellular radio business.

But there is also monopoly power at work in areas that will never attract the dignity of government regulation, or the scrutiny of the Monopolies and Mergers Commision, because they represent no form of conspiracy against the public. Two striking instances both relate, in a sense, to intellectual property: the monopoly of a computer supplier over its committed customers; and the monopoly of "mental shelf-space" that a long-established, heavily advertised supplier of any commodity achieves.

Once a computer company has attracted a loyal base of customers, it has a lock on them that only incompetence or a complete technological revolution can disturb. Proof of this axiom is the astonishingly long survival of the remaining "seven dwarfs", the mainframe computer companies hopelessly overshadowed by IBM. Unisys (formed by merging two of the dwarfs, Sperry and Burroughs) and Bull (which now runs the worldwide Honeywell computer business) have both demonstrated the returns to be made in this way. Similarly, though Lotus has suffered endless delays in updating its 1-2-3 spreadsheet program, the current version, badly outperfomed by its competitors, continues to dominate the best-selling software lists.

The rising value of brands

Lotus owes that market reprieve partly to its installed base of users, partly to the fact that it dominates purchasers' "mental shelf-space" in its product category. It is a sense of the finite nature of that commodity that lies behind the rising value of brands.

In the rule of thumb first derived from television channels, the human mind seems to have space to keep only "five, plus or minus two" brands – soft drinks, fast food chains, women's weekly magazines, whatever – in the front row. Recognition is vital to marketing success; yet once a few leading brands in any category are successful, adding another to the front row means, in effect, spending enough to push an existing leader out.

If it is true, as some of McKinsey's more daring partners argue, that large companies can no longer rely on economies of scale or overwhelming capital – because outside suppliers give the smallest firm all the advantages of scale in manufacturing and distribution, and the financial markets increasingly give start-ups as much access to capital as any multinational's subsidiary – then "mental shelf-space" becomes perhaps the most valuable real-estate any big company can own. Hence, in the past week, the Philip Morris bid for Kraft and the RJR Nabisco management team's confidence that it can finance the world's biggest leveraged buy-out by selling off some of its portfolio of food brands.

Possessing a monopoly, partial or complete, is only part of the story. Racal's cellular radio license would have been worthless if had not been able to run the network efficiently. Philip Morris's acquisition of General Foods' vast mental and actual shelf space has not yet produced a gusher of extra profitability. Finding an underexploited monopoly is not a certain route to profit – what you find may not truly be underexploited, or it may not really be a monopoly. Still, if the events of the past week are anything to go by, businesses may be forgiven for devoting more attention to dominating the mouse-trap industry's mental shelf-space than to improving the mouse-trap itself.

Peter Martin

THE MONDAY INTERVIEW

Inheritance by election

Roger Matthews talks to Aung San Suu Kyi in Burma about her political aspirations

By late afternoon on August 25 this year the crowds had already begun to gather on the open ground to the west of Rangoon's magnificent Shwedagon Pagoda of which Somerset Maugham wrote, "it rose superb, glistening with its gold, like a sudden hope in the dark night of the soul of which the mystics write, glistening against the fog and smoke of the thriving city."

Many people had brought their bedrolls, entire families squatted in circles around an evening meal, all settling for an 18-hour, or longer, wait. By mid-morning the following day the crowd had swollen to at least 500,000. Some estimated that 1m were there. And all had come to see and listen to a woman of whom they knew little but her name: Aung San Suu Kyi.

People present said the air was heady with political excitement. General Ne Win, who had ruled and ruined Burma for a quarter of a century, had resigned a month before. His immediate successor, Sein Lwin, had ordered troops to open fire on massed demonstrators demanding an end to the regime and the introduction of democracy. Having killed hundreds, but without managing to halt the protests, Sein Lwin also quit. The army was largely withdrawn from the streets, no fewer than 40 newspapers had sprung up in a matter of days, and there was some reason to hope that the third president in four weeks, Maung Maung, was preparing to make significant concessions.

One of those 40 newspapers, euphorically titled Scoop, had published in one of the only three issues it was to print a photograph of General Aung San, as heroic a figure to the Burmese as George Washington is to Americans. The general was holding in his arms a small girl who now, 40 years on, was about to make her first major political speech to the nation which her father had led to the brink of independence from Britain.

"I'm not a public speaker, but I was not really nervous," she said last week. "I just did not have time to be. I was far more worried about actually getting there because of the terrible difficulty in getting through the tremendous crowds. Just to arrive on the platform was the most tremendous relief. But I can't say I would describe it as an enjoyable experience."

Her emphatic initial message of democracy through unity and discipline quickly gave way to a more personal introduction. "I would like to explain the part I have played in this movement. This is needed because a fair number of people are not very well acquainted with my personal history. A number of people are saying that since I have spent most of my life abroad and am married to a foreigner I could not be familiar with the ramifications of this country's politics.

"I wish to speak very frankly and openly. It is true I have lived abroad. It is also true that I am married to a foreigner. These facts have never, and will never, interfere with or lessen my love and devotion for my country by any measure or degree.

"People have also been saying that I know nothing of Burmese politics. The trouble is I know too much. My family knows better than any how complex and devious Burmese politics can be and how much my father had to suffer on this account. He expended much physical and mental effort in the cause of Burma's politics without personal gain. That is why my father said that once Burma's independence was gained he would not want to take part in the kind of power politics that would follow.

"Since my father had no such desire, I too have always wanted to place myself at a distance from this kind of politics. Some might ask why, if I wished to stay out of politics, should I now be involved in this movement. The answer is that the present crisis is the concern of the entire nation. I could not, as my father's daughter, remain indifferent to all that was going on. This national crisis could, in fact, be called the second struggle for national independence."

In this neatly rounded personal introduction Aung San Suu Kyi brought family and national histories full circle. The torch carried by her father before he was assassinated with five others in 1947 would be picked up again by his daughter at a time of scarcely lesser national importance.

This particularly Asian sense of family political destiny and obligation is seen in India where son has followed mother, in Pakistan where daughter seeks to follow father, in the Philippines where widow followed husband, and in Singapore where son is likely to follow father. But in Aung San Suu Kyi's case it is an inheritance which has been learned as much as personally experienced.

As secretary-general of the newly formed National League for Democracy, Aung San Suu Kyi is at the sharp end of Burmese politics and, judging from her popularity with the crowds and the impression she has made on Western ambassadors, is one of the brighter hopes for the country's post-dictatorship era when it eventually dawns.

"I have long believed that by the time one is 15 one's character is very largely formed and when I left here at 15 to go with my mother to Delhi, where she had been appointed ambassador, I had already put down roots. My father's role was something I was always very conscious of. He loved Burma very much. He was a very honest man, he had great integrity and intelligence, and he loved his people."

She denies ambition. "I grew up with the belief that I had to be worthy of my father. That meant not seeking any position of power but discharging my duties as would be expected of my father's daughter." It seemed to have coloured her decision to read PPE at Oxford. "I hate admitting reading it. I would much prefer to have read English, Japanese or forestry, but I did it because economics seemed to be of most use for a developing country."

From then life became peripatetic, with Oxford and Rangoon acting as the twin hubs. A couple of years at the UN was followed by marriage to Dr Michael Aris whom she had met through her long and close association with the Gore-Booth family. Sir Paul, later Lord Gore-Booth, had been ambassador to Rangoon, High Commissioner to India, and acted as guardian to Aung San Suu Kyi when she was at Oxford and he was permanent under-secretary at the Foreign Office.

With her husband, who is presently pondering his future as Research Fellow in Tibetan Studies at Wolfson College, Oxford, she lived in Bhutan, Scotland and Oxford, gave birth to two sons, learned to speak Tibetan, took her younger son to live in Kyoto where they both learned Japanese, met up with her husband again in Simla, India, and had just started a postgraduate thesis at the School of African and Oriental Studies in London when in April this year her mother suffered a serious stroke.

For three months Aung San Suu Kyi lived in a Rangoon hospital tending her mother while the popular uprising against the Ne Win regime gathered force. During that time her commitment to Burma deepened.

"I don't find party politics at all attractive. I would much prefer to be a writer. But once I had committed myself then I had to accept that I would end up in a political party. It is not what I wanted at all, but there cannot be any half measures."

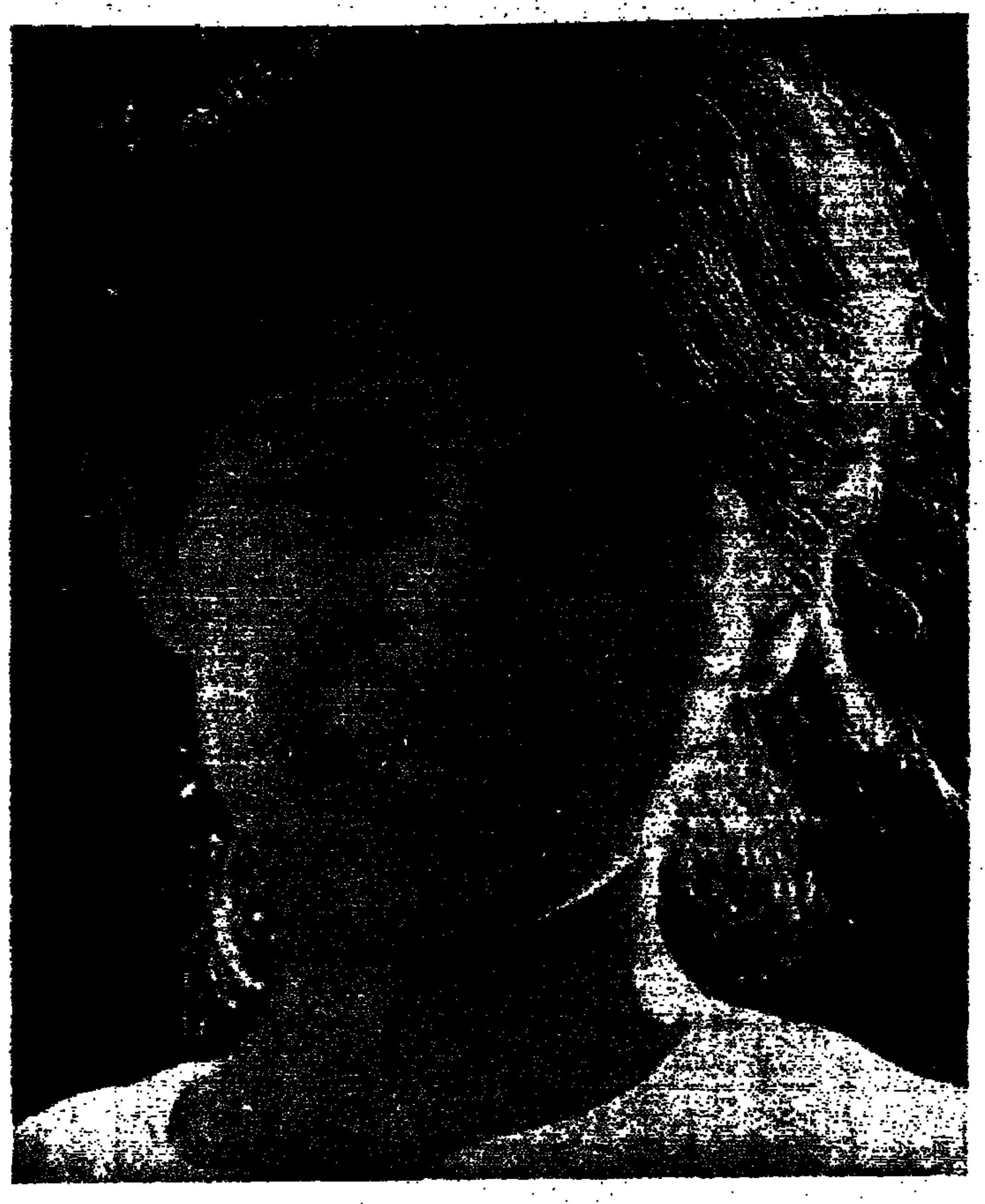
The needs of Burma are immense. Following the military takeover on September 18 the troops have driven the demonstrators off the streets, killing and wounding thousands. "People are more angry than frightened," said Aung San Suu Kyi. "But despite it all I still believe that we must try for a peaceful and constitutional change.

"We must also try very hard to remain united. Of course, some more militant groups have gone off to join the rebels (fighting for autonomy from Rangoon) and that is a great pity because we should not attack each other. We all want the same thing. But I cannot, I will not condemn them. I am just very sad, very sorry, that we cannot protect them."

Protecting Aung San Suu Kyi is her name and 50-60 enthusiastic student supporters camping in the grounds of her house on University Avenue. "The only weapon I have in the house is my father's sword," she smiled. "He believed in the democratic ideal and I, too, think I am a liberal person. He was part of a communist cell as a student, but as he matured he became much more liberal. Remember, he was only 32 when he was killed and he had already achieved so much and become very mature and far-seeing. I would like to be a practical idealist, if that is possible to achieve."

● Personal File

1945 Born Rangoon
1960 Mother appointed Ambassador to India
1967 BA in philosophy, politics and economics, St. Hugh's College, Oxford
1969 Assistant Secretary, Advisory Committee on Administrative and Budgetary Questions, UN Secretariat
1972 Married Dr Michael Aris, a British scholar
1972 Research Officer, Ministry of Foreign Affairs, Thimphu, Bhutan
1975 Cataloguer of Burmese books and manuscripts, Bodleian Library, Oxford
1985 Visiting Scholar, Kyoto University, Japan
1988 Secretary-General, National League for Democracy, Burma



'People have been saying that I know nothing of Burmese politics. The trouble is I know too much'

Silence in and out of court

JUSTINIAN

The Home Secretary's warning that he is contemplating a proposal to parliament to change the law relating to an accused person's right to silence – even if it appears to be only a modest change to permit adverse comment to be made at the trial of an accused who exercises the *fundamental right not to incriminate himself or herself* – needs to be judged in context in the criminal justice system.

Those who believe that persons in police custody should be protected against self-incrimination have stoutly favoured the imposition on the police of the duty of invariably cautioning the suspected offender before questioning him. Until now that view has triumphantly prevailed. Indeed the Police and Criminal Evidence Act 1984 explicitly tightened up the rules of cautioning. A caution must be administered as *soon as a police officer has evidence* which would afford reasonable grounds for suspecting that the person has committed an offence.

The law's fondness for protecting the rights of an accused has not escaped the strictures of those – not by any means confined to the police or other law enforcement agents – who have regarded the right to silence as a positive hindrance to successful criminal investigation.

The tension manifested in the rival arguments has two principal sources: questioning at a police station is not open to public scrutiny; and the rules that regulate such questioning have evolved from principles that are not easily reconcilable with present-day police practice. Much of the criticism of police practice has, unfortunately for sound debate, been ill-informed and largely based on a handful of *causes célèbres* which, by definition, are exceptional cases.

Much of the advocacy in the past for dismantling or restricting the right of silence has been undermined by the absence of any empirical support for the change. Recent research studies have, however, demonstrated how little advantage, in practice, is taken by suspects of their right to remain silent and put the prosecution to the proof of its case.

Nearly half of all suspects at police stations make a confession and over two thirds give information which is positively helpful in securing their own convictions. A substantial minority (almost a fifth of all suspects) actively volunteer information about offences other than those for which they have been detained.

Only about 5 per cent refuse to answer any question of substance and less than 10 per cent refuse to answer some questions. Of those who refuse to talk at all, half are, nevertheless, prosecuted to conviction.

Suspects take little advantage in practice of the right to remain silent

While it is logical to suppose that an investigating officer would have a better chance of uncovering the truth if he was not required first to tell the suspect that he did not need to answer his questions and then *to devise ways of persuading* the suspect to answer, the gain to successful prosecution of offenders is small. That is so even if the few who may escape conviction represent the class *of sophisticated criminals* who are acutely aware of their rights and exploit them fully to escape the clutches of the law.

The remedy now being canvassed for dealing with the *supposed major villains* is not directly to deny them the right of silence but to tell jurors in as many words that they may draw an adverse inference from the accused's exercise of that right. The assumption is currently made that the impermissibility of forensic comment on an accused's silence precludes the drawing of an adverse inference.

This approach is insulting to the intelligence of jurors. It accords little or no recognition of the ability of jurors to apply *their common sense. Silence* by an accused often speaks volumes as to complicity in crime, even without any comment to that effect when the case comes to court.

It hardly seems worthwhile, therefore, sacrificing a fundamental principle of criminal justice, however infrequently it is exercised by accused persons, for the sake of a supposed effect arising from court-room comment. Indeed, if it is so fundamental, it is hypocritical of the law to undermine its fundamental nature. Rather than achieve the change by the backdoor method of allowing adverse comment, the law should examine the basic right of silence, both in and out of court.

The search for a proper balance between the powers of the police and the rights of people suspected of crime may not be confined to what happens in the police station. So long as there is public unease, justified or not, about what may occur out of public sight, there seems little sense in heightening public disquiet which would outweigh any public advantage from the change. If the balance needs to be redressed in favour of securing higher rates of conviction, rather it must be sought elsewhere.

The right of silence accorded to the accused in the courtroom, where all the necessary procedural safeguards are ready to hand in full of view of the public, might provide a solution. The rule of English law that the prosecution must *establish its case according to* a very high standard of proof, unassisted by any word from the accused, remains unique among European legal systems. It is the criminal trial *rather than the criminal investigative* process to which politicians and legislators should look for revision. Therein lies the greater potential for public acceptability.